Workplace Safety and Insurance Board

2012 Annual Report

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Workplace Safety and Insurance Board
Commission de la sécurité professionnelle et de l'assurance contre les accidents du travail

2012 Annual Report

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President and CEO's message

At the end of 2012, I marked my third anniversary as President and CEO of the WSIB. We have accomplished a great deal since 2010 and I have had wonderful opportunities to speak with the people who benefit from the WSIB's services and programs.

I have also had the pleasure of working with an innovative and dedicated team of WSIB staff and managers. There is a sense of optimism and renewal throughout our organization and it shows in the value we are delivering. So I am very pleased, in this report, to provide you with an update on our operations in 2012 – a year in which record percentage of workers returned to work with no loss of wages and our stakeholders were able to deal with us with increasing levels of service and convenience.

We made steady progress in improving our financial results and addressing our unfunded liability (UFL). This was achieved through initiatives such as our Service Delivery Model and Work Reintegration Program along with our new Health Care and Investment Strategies. The UFL fell by $923 million this year and, after years of losses, we achieved a surplus of $1.1 billion.

To really understand what we have achieved, you need to look back to the late 1990s. Over the course of a decade (up to 2009), while the number of new claims fell each year, the number of workers who remained off work and on benefits 12 months after their injury more than doubled. As a result, the cost of benefits paid rose from $2.0 billion in 1998 to $3.2 billion in 2009. By 2009, the Auditor General reported that the system was in crisis.

Proactive solutions earning results

Since 2009, we've taken a much more proactive approach:

- We implemented a new operating model and new technology to increase the speed of decision making on claims without impacting the quality. This gets benefits to workers sooner and helps them focus on their recovery.
- We invested in better approaches to health care and increased access to specialized care, resulting in improved treatment and recovery.
- We brought return to work services back in-house through the launch of the Work Reintegration Program, hiring over 300 return-to-work staff. These specialists made over 23,000 workplace visits in 2012 to negotiate return to work and accommodations for injured workers.

I am pleased to tell you that this approach *is* working. We are now spending more on medical care for individual workers, but workers are getting back to work faster than they have in a decade. The percentage of injured workers still on benefits 12 months after injury has dropped by almost half, and the financial picture has improved because benefit costs have fallen.

Faster, fairer decision-making

In 2012, the rate of allowed claims has remained where it has been for most of the last 10 years, while the amount of wage replacement we paid per day of lost time has actually gone up slightly. At the same time, quality control tests of initial adjudication show a very high level of accuracy in decisions made.

The real story behind reduced costs has been the improving recovery and return to work of injured workers. Today, 92% of all injured workers are back to work at full wages within one year of their injury. We have also seen a significant drop in the percentage of workers who have gone on to develop permanent impairments.

These are encouraging results, but we realize we still have a lot of work to do. To maintain this momentum, we'll continue to consult with our stakeholders to determine ways that we can serve our customers better while operating in an efficient and financially stable manner.

New Strategic Plan

Our *2012-2016 Strategic Plan*, released in early 2012, demonstrates our commitment to bringing about transformation and modernization of the system – real and lasting change for Ontario's workers and employers. The plan includes specific organizational goals and outcomes to improve service to workers and employers while building in new quarterly measurements of our achievements. We can track our achievements against each of our five key strategic pillars; make adjustments where necessary; and share the results in our quarterly Measures Report as part of our commitment to transparency and openness.

Modern, convenient, and efficient services

One of these achievements is our investment in technology. This investment has enabled us not only to increase and improve our services to workers and employers, but to also make it more convenient and cost-efficient for them to do business with us.

As well as reducing our administration costs, our suite of eServices gives workers and employers access to information and the ability to complete transactions on a 24/7 basis. Today, employers can register with the WSIB, calculate their premiums, receive clearance certificates and report injuries online. And we're not done yet – there are more eServices on the way in 2013.

Strategic risk

We have demonstrated success in attending to the fundamentals of our business. Decisions are being made faster, workers are being helped back to work earlier, and costs are coming down rapidly. We can cope with the expected risks of doing business – the uncertainties of investment returns, and the need to estimate prudently for variances in premium revenue or the cost of claims.

What we see as a fundamental strategic challenge is that the very foundations of the compensation program we administer are increasingly being tested by changes in Ontario's workplaces, the nature of work, and stakeholder expectations. An aging workforce, and the rapid rise of outsourcing and temporary employment are a just few examples.

Looking ahead

Over the next two years, it is our goal to continue to significantly improve the speed and quality of service to our stakeholders. We are also engaged in fundamental changes to our operational policies and rate setting structures.

For decades, it has been difficult to review and renew benefits policies. Consequently, they have not kept pace with changes in Ontario's workplaces and advances in occupational medicine. More importantly, our benefits policies are unnecessarily complex and are often challenging to understand and apply for workers, employers and our staff. We are now engaged in a comprehensive Benefits Policy Consultation with stakeholders to review and renew benefits policies, so that both the expectations of workers and employers are clear and decisions by adjudicators become consistent.

Similarly, we are also engaged in a Rate Framework consultation aimed at renewing our classification and rate setting structures, something that small businesses, in particular, have been asking for. The goal is to develop a blue print for a renewed Rate Framework that will be seen to be transparent, fair and easy to understand.

The future looks promising

Success is a team effort. At the WSIB we are fortunate to have a strong, dedicated team of individuals.

With their efforts and through consultation and collaboration with our stakeholders, we will succeed in transforming the WSIB into a nimble, service-oriented organization that ably serves workers and employers and contributes to the growth of Ontario's economy.

I D Marshall

I. David Marshall

President and CEO

Chair's Message

It is a pleasure to provide you with an update on what was a very busy and productive year.

Since being appointed Chair of the WSIB in May 2012, I have worked with the Board of Directors and our senior management team to transform the WSIB into a system that is fiscally accountable, sustainable, transparent, and provides improved services for workers and employers.

As the Board approaches its 100th anniversary in 2014, our goal is to usher in a new era that not only reflects the changing nature of the workplaces and workforce of today, but keeps our workplaces safer and healthier – that provides fair benefits and stability to injured workers, and fairness and predictability to the employers who pay for the system.

In doing so, it is important to ensure that our reforms are responsible, sound, and respond to our stakeholder needs. This means consulting with all stakeholders in an honest and open debate and considering all points of view as decisions are made.

Strengthening stakeholder relationships

I am consulting regularly with our stakeholders and have embarked on a province-wide tour to meet with injured workers, unions, employers and business groups to seek their advice and input. I am committed to pursuing such meetings throughout my term as Chair of the WSIB.

My four Chair's Stakeholder Committees from the worker and employer communities continue to provide a meaningful vehicle to promote transparency and a very constructive dialogue as we develop policies, positions and solutions.

Policy Renewal to Serve You Better

Two major new consultations were launched in 2012 as part of our Policy Renewal process.

The first consultation to renew and review our benefits policies is being led by Jim Thomas. He has reviewed four benefits policy areas: recurrences, work disruptions, aggravation basis and permanent impairments and his findings will lead to more consistent and fair decisions by adjudicators. Mr. Thomas will complete his report in 2013.

Douglas Stanley is engaged in a second consultation with stakeholders on the design, implementation and operation of a new rate framework that will be transparent, fair and easy to understand. Mr. Stanley will submit his recommendations in late 2013.

Financial Results

In 2012, the Ontario government passed legislation that requires the WSIB to reach:

- 60% funding by 2017;
- 80% by 2022; and
- Full finding by 2027 (total elimination of the UFL).

We are on track to meet the government's first requirement of 60% funding by 2017. I am pleased to say that operational changes and stronger financial discipline have already produced positive outcomes and are helping us reduce our UFL. The UFL, which was $14.2 billion when I arrived in May, has been reduced by almost $1 billion by the end of 2012.

The WSIB is doing all it can to ensure its operations are as efficient and effective as possible. Our Board now has one of the lowest claim and administration costs among all provinces in Canada.

Looking Ahead

I am optimistic about the future of the WSIB and its ability to meet the needs of the workers and employers it serves. We have seen significant improvements in healthcare for injured workers, better support for their transition back into the workplace, and more efficient use of employer premiums.

I am fortunate to work with a dedicated and committed Board of Directors, President & CEO David Marshall and his team. Together we will continue our efforts to modernize and transform the WSIB to an accountable and sustainable health and safety system that supports economic growth and productivity in Ontario.

Our ultimate goal is to make the WSIB the best workplace health and safety system in Canada, and with the help and input of our stakeholders we can achieve that goal.

Elizabeth Witmer

Chair

Board of Directors and Committees

The members of the WSIB Board of Directors have a diverse range of skills and understanding, reflecting their experiences across many business and industry sectors.

Elizabeth Witmer

Chair: May 17, 2012 - May 16, 2017

Governance Committee (Chair)

Elizabeth Witmer began her political career in 1980 as a trustee and Chair of the Waterloo County Board of Education. From 1990 to 2012 she served as the M.P.P. for Waterloo North and Kitchener-Waterloo and is the longest serving female M.P.P. in Ontario history. During that time she served as Deputy Premier, Minister of Labour, Minister of Health & Long-Term Care, Minister of Environment and Minister of Education.

Her leadership, advocacy and accomplishments have been acknowledged with many prestigious awards such as the Smogbuster Award from the Ontario Clean Air Alliance for her leadership as Minister of Environment in directing the closure of the first coal plant in Ontario, Lakeview, and the Social Work Doctors Award of Merit to recognize her strong commitment to a just and caring society.

I. David Marshall

President and CEO: January 24, 2010 – January 23, 2015

Investment Committee, Governance Committee

Prior to joining WSIB, I. David Marshall was Canadian Ambassador to Barbados and the Eastern Caribbean. He is also a Fellow of the Certified General Accountants Association of Canada and served in several senior executive roles in the Government of Canada, consecutively as Assistant Auditor General for Canada; Assistant Deputy Minister at Revenue Canada, Customs and Excise; and Assistant Deputy Minister at Employment and Immigration Canada.

David has also served in senior positions in the telecommunications and banking industries including appointment as Vice Chairman of CIBC from 1999 to 2002. He returned to the Federal Government as Deputy Minister of Public Works and Government Services Canada and Deputy Receiver General for Canada.

Lynda Bowles

Member: November 14, 2012 - November 13, 2013

Audit and Finance Committee, Investment Committee, Governance Committee

Lynda Bowles, a FCA, has specialized in Audit, Governance, Quality reviews and Financial Advisory Services over a 33 year career.

Currently, she is a Director of both the West Park Health Care Centre and the Technical Standards and Safety Authority.

Brendan Calder

Member: May 4, 2011 – May 3, 2014

Audit and Finance Committee, Investment Committee, Human Resources and Compensation Committee (Chair)

Brendan Calder is currently an Adjunct Professor of Strategic Management and Entrepreneur in Residence at Rotman School of Management. Previously, he served as Chairman, President and CEO with CIBC Mortgages from 1996 to 2000. Mr. Calder was also President and Director of FirstLine Trust Company.

Brendan holds a Bachelor of Math Degree from the University of Waterloo, attended the Advanced Management Program at Harvard Business School, and holds an ICD.D designation from Rotman.

Alice Dong

Member: October 17, 2012 - October 16, 2015

Health and Safety Committee, Human Resources and Compensation Committee

A graduate of the University of Toronto, Dr. Alice Dong is an Occupational Health physician with professional expertise in the public and private sectors. Both Canadian and American Board certified, Dr. Dong has training and practical experience in Health & Safety, Disability Management, and Return to Work.

She is past chair of the Ontario Medical Association Committee on Work and Health, a former Vice Chair of the Governing Council of the University of Toronto, and is a Board member of Women's College Hospital. She is currently a medical consultant to Disability Management Services, RBC Insurance.

P. Morgan McCague

Member: August 21, 2008 – August 20, 2014

Audit and Finance Committee, Investment Committee (Chair), Governance Committee

P. Morgan McCague has over 40 years work experience establishing new investment operations and new programs and has worked at a senior level with the Ontario Teachers' Pension Plan, the Alberta Teacher's Retirement Fund and various financial institutions.

Morgan is a graduate of the Institute of Corporate Directors, was a Director of GCAN Insurance Company, and served as President of the Buy-Side Investment Management Association.

Lea M. Ray

Member: December 3, 2008 - December 2, 2013

Health and Safety Committee, Investment Committee, Governance Committee, Audit and Finance Committee (Chair)

Lea is a certified director (ICD.D) of the Institute of Corporate Directors, at the Rotman School of Management, University of Toronto and is a Canadian Chartered Accountant. She holds a Bachelor of Commerce (Honours Business Administration) Degree from the Odette School of Business, University of Windsor.

Currently residing in Toronto, Ontario, Lea was employed by Warner Bros. Entertainment Canada Inc., a division of Time Warner, for 18 years, most recently in the role of Vice President of Corporate Finance. She is a Director of Tarion Warranty Corporation and has also served on charitable boards, including the Rouge Valley Health System and an environmental charity.

Sari Sairanen

Member: September 24, 2008 – September 23, 2014

Health and Safety Committee (Chair), Governance Committee, Human Resources and Compensation Committee

Sari Sairanen is National Health and Safety Director at the CAW and came to the National Union from the Airline Division, which represents members from across Canada. Sari also sits on the HRSDC OSH Regulatory Review Committee, the CSA's Strategic Steering Committee and the Canadian Labour Congress' Occupational Health and Safety Committee.

Scott Wilson

Member: December 5, 2012 - December 4, 2013

Health and Safety Committee, Human Resources and Compensation Committee

Scott Wilson is Executive Director of the Kitchener, Waterloo, Cambridge Injured Workers Group.

For over ten years, Scott has provided peer support and guidance to injured workers and has been an active contributor to WSIB issues. A former glazier metal mechanic for over 20 years, he suffered a severe injury in 1999. Scott is now currently pursuing his Paralegal accreditation.

Bryce Walker

Member: January 23, 2013 - January 22, 2014

Audit and Finance Committee, Investment Committee, Human Resources and Compensation Committee

Mr. Walker brings with him a wealth of experience in healthcare and education governance. He is past Chair of Wilfred Laurier University's Board of Governors, as well as past Chair of Grand River Hospital's Board of Directors. Grand River Hospital is one of Ontario's largest community hospitals located in the Waterloo region.

Mr. Walker's professional experience includes his role as Senior Vice President of Group Benefits for Manulife Financial, from which he has retired. He has a Bachelor of Math degree from the University of Waterloo, is a Fellow of the Canadian Institute of Actuaries, a Chartered Financial Analyst and holds an ICD.D designation from Rotman.

Committees of the Board of Directors

The **Audit and Finance Committee** advises on financial and other reporting practices and internal controls. (The committee includes external advisor Peter Ringler.)

The **Health and Safety Committee** advises on workplace health and safety policies, performance objectives, and measurement criteria.

The **Human Resources and Compensation Committee** advises on the health and safety of WSIB employees and the human resources function.

The **Governance and Policy Committee** advises on governance and policy matters.

The **Investment Committee** provides counsel on investment policy, monitors investment returns, and reviews the performance of investment managers and their compliance with applicable laws and regulations, and their respective mandates. (The committee includes external advisors **Maureen Farrow**, **Don Walcot**, and **Paul Grise**.)

Management's Responsibility for Financial Reporting

Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") and the consolidated financial statements have been prepared by management and approved by the Board of Directors of the Workplace Safety and Insurance Board (the "WSIB"). The consolidated financial statements were prepared in accordance with International Financial Reporting Standards ("IFRS") and, where appropriate, reflect management's best estimates and judgment. Where alternative accounting methods exist, management has chosen those methods considered most appropriate in the circumstances. Management is responsible for the accuracy, integrity and objectivity of the consolidated financial statements within reasonable limits of materiality of internal controls. Management is also responsible for the preparation and presentation of additional financial information included in the Annual Report and ensuring its consistency with the consolidated financial statements.

The Audit and Finance Committee of the Board of Directors meets with management as well as with the independent auditors to satisfy itself that management is properly discharging its financial reporting responsibilities and reviews the consolidated financial statements and the independent auditors' report. The Audit and Finance Committee also reports its findings to the Board of Directors for consideration in approving the WSIB's Annual Report and its submission to the Minister of Labour (the "Minister") pursuant to a Memorandum of Understanding between the Ministry of Labour (the "MoL") of the Province of Ontario (the "Province") and the WSIB.

In this MD&A, the "WSIB", the "Agency", or the words "our", "us" or "we" refer to the WSIB. This MD&A is dated April 25, 2013, and all amounts herein are denominated in millions of Canadian dollars, unless otherwise stated.

The information in this MD&A includes amounts based on informed judgments and estimates. Forward-looking statements contained in this discussion represent management's expectations, estimates and projections regarding future events based on information currently available, and involving assumptions, inherent risks and uncertainties. Readers are cautioned that actual results may differ materially from projections in cases in which future events and circumstances do not occur as expected.

The consolidated financial statements have been examined by the WSIB's independent auditors, KPMG LLP, Chartered Accountants, and their report is provided herein.

I D Marshall

I. David Marshall
President and Chief Executive Officer
April 25, 2013
Toronto, Ontario

Lawrence E. Davis
Chief Financial Officer

Management's Discussion and Analysis

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1. Year in Review

Highlights of our performance for the year ended December 31, 2012 compared to 2011

The following MD&A should be read in conjunction with the audited consolidated financial statements and accompanying notes of the WSIB as at and for the year ended December 31, 2012 (the "Consolidated Financial Statements").

Financial highlights

- Net investment income was $1,459 million, reflecting a healthy 10.5% return and our investments grew by approximately $2.0 billion in 2012.
- Our unfunded liability decreased by $923 million and our funding ratio improved by 4.4% to 56.5% at the end of the year.
- Our premiums covered all our operating costs and left a surplus of $345 million which went to further reduce the unfunded liability. The adequacy of our premium revenues to cover costs is significant since it allows us to retain all of our investment income in our investment portfolio and grow it on a compounding basis. This improvement compares with previous years where we had to withdraw approximately $500 million a year from our investment fund just to pay operating expenses.
- We transferred $300 million of cash generated from operating activities to our investment fund.
- Premium revenues increased $185 million or 4.8% due to stronger than expected growth in payrolls and our continued efforts to bring premium rates in line with costs.
- The number of lost-time claims decreased slightly despite the growth in insurable earnings signaling a continued improvement in injury and illness prevention in the Province's workplaces. This, combined with continued improvements in return to work and recovery outcomes for injured workers, has led to a $186 million, or 6.5%, reduction in benefit payments – the third year of decline after ten consecutive years of increases.
- Administrative and other expenses, before allocation to benefit costs, decreased $18 million or 2.6% prior to a $79 million non-cash increase in pension and other long-term benefit plan expenses and $22 million of termination benefits used to reduce staff levels.
- As a result of our strong 2012 financial results and operational initiatives underway, we are well positioned to achieve our legislated ratios, discussed below in Section 7 – Liquidity and Capital Resources.
- We are developing a sufficiency plan which will be submitted to the Government of Ontario by June 30, 2013, to demonstrate in a transparent manner how we are continually monitoring results and reporting against legislated milestones.

The WSIB is on the path to sustainability. In 2012, the WSIB's transformation began to take hold and we achieved significant operational and financial improvements. Our focus on recovery and return to work resulted in 92% of injured workers returning to work within one year of their injury with no wage loss. Our medical strategy is ensuring that workers receive timely health care services to assist in their recovery and our specialized case managers are making quality decisions faster, thus injured workers receive their benefits faster and can focus on their recovery. Financially, the WSIB is now on the path to sustainability. In 2012, for the first time since 1997, our premium and investment revenues not only covered our benefits to injured workers and operating costs, we were able to transfer $300 million to our investment fund. We achieved these outcomes by focusing on what matters to injured workers and employers – recovery and return to work and a financially stable system for future generations.

Strong investment returns. Net investment income was $1,459 million, reflecting a 10.5% return on investments, exceeding our 2012 investment return expectations while reducing the risk of the total investment portfolio through increased diversification. Looking forward, we expect our investment return to be in line with our long-term expected return of 6.0%.

Increased premium revenues. Gross premiums increased $230 million or 6.1%, reflecting a $162 million or 4.2% increase in insurable earnings and $68 million attributed to the 2.0% premium rate increase announced in 2011. Additionally, we had a net outflow of $75 million in our employer incentive programs, which is deducted from gross premiums. Our experience rating programs will be addressed as part of the broader rate framework consultation in 2013.

Administration and other expenses remain tightly controlled. Administration expenses continue to be tightly controlled. We had two large atypical expenses this year: $79 million due to a non-cash increase in pension and other long-term benefit plan expenses as a result of more conservative actuarial assumptions; and $22 million for termination benefits due to reducing our staff levels by 330 positions. Apart from these, our administration costs dropped from the previous year by $18 million after absorbing inflationary pressures on our payroll of $14 million. We expect additional contributions to the pension fund in the near to mid-term if pension solvency rates remain low.

Better outcomes for injured workers. We continued to focus on improving recovery and return to work results for injured workers. In 2012, more injured workers recovered and returned to work faster, resulting in fewer total working days lost to injury. The percentage of Schedule 1 workers receiving loss of earnings ("LOE") benefits at 3, 6, 12, 24, and 48 months decreased by 2.1%, 1.6%, 1.4%, 1.9% and 1.0% respectively. These improved outcomes resulted in 6,200 (or 23%) fewer paid claims in the non-locked-in claims inventory compared to 2011. For injured workers not able to completely recover and return to work, we are achieving greater success at helping them mitigate their wage loss. The average LOE entitlement award at lock-in decreased to 52.2%, from 56.0% in 2011 and the percentage of non-locked-in claims on 100% LOE decreased to 48.1% from 58.7%, an improvement of 10.6%. These results are now returning to norms that existed prior to 1998.

Health care as an investment. Recognizing that appropriate and timely medical care is important to an injured worker's recovery, the WSIB continues to invest in health care. In 2012, the average health care cost per claim for Schedule 1 increased by 1.6% to $1,559. We expanded the use of Specialty Clinic Programs and Programs of Care, and further reduced the use of harmful narcotic medication. Spending on Specialty Clinic Programs and the Programs of Care increased by $9.3 million (or 17.9%) and $2.7 million (or 24.5%), respectively, as we made referrals to these programs earlier in the claims process. Costs for narcotic analgesics decreased by $5.3 million (or 16.4%) as 11.6% or 4,200 fewer claims received these medications. Our improved health care strategy is resulting in improved recovery and lower chances of injured workers developing chronic conditions. The percentage of workers with a permanent impairment ("PI") decreased from 10.3% to 8.9% and the average PI award decreased from 13.1% to 10.4%. Our current PI awards are in line with those that existed prior to 1998 and are approaching current award levels experienced in other provinces.

Fewer lost-time claims and faster quality service. The WSIB registered 277 fewer Schedule 1 lost-time claims in 2012, or 0.7%, a modest decrease despite an increase in employment. The Province's lost-time injury rate of 1.04 per 100 employees continues to be among the lowest in Canada. Once claims were registered, we continued to focus on making quality decisions faster. In 2012, 91.8% of Schedule 1 eligibility decisions were made within two weeks, compared to 86.9% in 2011. These quicker eligibility decisions ensure that workers receive benefits faster and can focus on recovery and return to work. The percentage of claims allowed remained steady at 80%.

Increased focus on customer service. We changed the way we do business by becoming a more flexible, less bureaucratic organization. With a focus on removing barriers to access, we increased our offerings of 24/7 online access to employers and workers through our eService suite, expanded our hours of operation and enhanced our telephone services to make it easier for our customers to get back to what matters. We established a call centre model in our Employer Service Centre, which services employer accounts. Since the call centre model's introduction, 98% of telephone calls from employers were answered live within one minute, compared to 93% in 2011. The 2012 quarterly surveys found that 8 out of 10 employers were very or somewhat satisfied with the service they received for claims or account management, and 7 out of 10 workers were very or somewhat satisfied with the service they received for claims. In addition, online survey results revealed that 81% of all users were very or somewhat satisfied with the eServices suite.

Increased financial stability. The continuing decline in claims over the past five years, combined with improved outcomes for injured workers, has resulted in a decrease in benefit payments (discussed further in Section 4 – Operating Results). This improvement was also complemented by a more prudent approach to setting premium rates and a strategic investment plan designed to minimize risk while maintaining a reasonable long-term return target.

Increased transparency. We continue to change the way we do business with a focus on increasing transparency. In 2012, we published our strategic plan, as well as quarterly financial and operational results, on our website. We continue to implement our policy renewal process with a strong focus on stakeholder consultation. The WSIB is committed to maintaining consistent stakeholder engagement and consultations, and providing regular communications to stakeholders and the public.

Looking ahead. We will continue to modernize the WSIB, stabilize our finances, and deliver service improvements for workers and employers. In 2013, we will grow and enhance our suite of eServices, allowing injured workers and employers convenient 24/7 access. We will roll out telephone service improvements, improving quality and timeliness of response for the approximately 80% of injured workers and employers who use the telephone as their primary and preferred method of connecting with us.

With our focus on helping injured workers recover and return to work, we expect that the number of working days lost to injury will continue to decrease, contributing to improved productivity for the provincial economy, and a continued reduction in benefit payments. Administration expenses are expected to remain relatively stable. Modest premium rate increases, combined with growth in insurable earnings are expected to result in an increase in premium revenues while investment returns are expected to approximate our long-term target of 6.0%. Under these conditions, we will continue to generate funding required to maintain the system, and to pay down the unfunded liability.

Other notable items. As noted in previous quarterly reports to stakeholders, we are required to implement an amended accounting standard on January 1, 2013 relating to how we account for employee benefits. This standard will increase our unfunded liability by approximately $762 million retrospective to December 31, 2012.

Also, in December 2012, the Government of Ontario announced a number of initiatives to assist pension plan sponsors in addressing funding deficiencies toward meeting its objective of Broader Public Sector pension plan sustainability. In December 2012, the WSIB applied for Broader Public Sector Temporary Pension Solvency Funding Relief through the Ministry of Finance. Through this program, the WSIB may be granted an additional five years to make solvency funding payments toward its employee pension plan (a total of ten years contrasted with five under the *Ontario Pension Benefit Act*'s current regulations). As a condition of acceptance, the WSIB must demonstrate to the Ministry of Finance that it has a plan in place to improve the long-term sustainability of its pension plan.

2. Our Business

An overview of our business

Our mandate

The WSIB, a trust agency of the Government of Ontario, is legislated to administer the Province's no-fault workplace compensation system under the *Workplace Safety and Insurance Act* (the "WSIA".) We administer the system with revenues collected through employer premiums, and to a lesser degree, income earned on our investments.

For workers, we help them get back to what matters – productive lives and work – by supporting them in their recovery and return to work and compensating wage loss, if required. Permanently injured workers who cannot return to their pre-injury employer are offered services to help them reintegrate into the workforce. In the event of a workplace fatality, the WSIB provides compensation and other benefits to the surviving spouse and dependents.

For employers, we provide collective liability insurance coverage and efficient account and claim management services making it easy for them to get back to business. The collective liability system provides stable costs rather than large exposure risks, ensuring that both employers and workers can avoid costly and time-consuming litigation.

For both workers and employers, we ensure access to industry specific health and safety information, training and services.

How we derive our income

Revenues to fund the operation of the WSIB and delivery of benefits and services are derived through premium revenues and investment returns.

Premiums

The WSIB collects premiums from employers classified under Schedule 1 of the WSIA and an administration fee from the employers listed in Schedule 2 of *Regulation 175/98*. Approximately 70% of the Province's labour force is covered by the WSIB under either Schedule 1 or Schedule 2.

Schedule 1 employers contribute to the collective liability insurance fund. There are over 240,000 firms, each assigned to one of 154 rate groups according to the nature of their business. The premium rate for each rate group reflects costs associated with benefits, administration and legislative obligations and past claims costs including a charge to retire the unfunded liability for that rate group.

Schedule 2 employers are self-insured. They include federal and provincial governments and their agencies, municipalities and school boards, and certain other enterprises such as major railways with operations within the Province. They reimburse the WSIB for the costs of their claims plus an administration fee to cover overhead costs and, in the case of provincially-regulated employers, legislative obligations.

Employer incentive programs for Schedule 1 employers may result in adjustments to their employers' premiums.

Mandatory employer incentive programs reduce or raise premiums paid by a firm based on their claims experience. Firms with over $1,000 but less than $25,000 in average annual premiums are assigned to Merit Adjusted Premium. Firms that pay more are assigned to Council Amended Draft #7 if in the construction industry, or New Experimental Experience Rating ("NEER").

Employers may also receive surcharges through the Workwell Program where mandatory on-site health and safety program evaluations are conducted at workplaces with higher than average lost-time injury rates.

Voluntary employer incentive programs offer rebates. The Safe Communities Incentive Program is designed for small businesses to raise greater awareness of workplace health and safety responsibilities, and the Safety Groups Program rewards employers who implement health and safety and return to work measures.

In addition, the WSIB maintains a Second Injury Entitlement Fund ("SIEF"). The SIEF reduces the amount of employer costs used for experience rating. It does this by relieving employer accounts of all or some of the claims costs in cases where the cause or duration of an injury was affected by a prior disability or pre-existing condition.

Investments

Our governance process

We invest the portion of premiums collected but not required to fund current operating expenses or to be paid to or on behalf of injured workers in the year of their injury. As at December 31, 2012, we held $17.6 billion to be invested to fund all future benefits including the WSIB employee pension benefit obligations. Our investment strategy for these funds involves a prudent balance of income generation and capital appreciation until the funds are required to pay benefits for injured workers.

The following is a summary of our investment governance process:

- Our governance process establishes the oversight for determining how we invest our funds and the safeguards put in place to monitor our investments. Our governance process begins with an annual review of our Strategic Investment Plan ("SIP"). Our SIP is designed to provide a diversified source of investment income within an acceptable level of risk, commonly referred to as volatility. In accordance with best practices, our SIP is reviewed no less than annually by our Investment Committee, which includes independent investment experts and is then reviewed and approved by our Board of Directors. Our SIP seeks to lower the variability of our investment returns over time while maintaining an acceptable rate of return, thereby providing funding for benefits for injured workers.
- Our governance framework operates in accordance with best practices for good governance. Investment decisions that have the most impact on investment outcomes remain at the Board of Directors level. These decisions include our investment beliefs, establishing our overall governance framework, and approving our Statement of Investment Policies and Procedures. With appropriate reporting and oversight, the Board of Directors delegates certain investment decisions to our Investment Committee and our senior management. The Investment Committee is appointed by the Board of Directors and consists of Board members and external advisers who have the requisite degree of financial expertise with sufficient knowledge and skill to advise on the development and implementation of our investment strategy.
- The Investment Committee approves operational investment policies as well as the hiring of investment agents. Within well-defined investment mandates, security selection decisions are delegated to external managers consistent with our belief that external investment management is more compatible with our objectives. Our investment program is executed and monitored by

senior staff members under the direction of our President and Chief Executive Officer, Chief Investment Officer, the Investment Committee and, ultimately, our Board of Directors.

- Risk is inherent in each element of the investment decision making process. Hence, risk measurement is an integral component of our governance program. We believe the most significant risks to which we are exposed include credit, liquidity and various market risks. A discussion of our investment risks and mitigating strategies is contained in Note 21 to the consolidated financial statements. We use various financial and non-financial models to assess, measure and monitor risk, and in 2012, we implemented a new investment risk measurement system.

What we invest in

We invest in a wide range of assets to provide a target level of investment return over the long-term given the level of risk we are prepared to assume. The asset strategies we invest in include:

- ***Equities.*** We invest in a diversified portfolio of domestic and international equities to provide broad equity market exposure. Equities are expected to provide higher investment returns than other asset classes over the long run, but exhibit a large degree of variability in investment returns from year to year.
- ***Bonds.*** Our government and corporate bond portfolio is designed to track the performance of the broad Canadian bond index. Bonds provide diversification and liquidity, particularly when economic conditions are weak, or when market or economic shocks precipitate a flight to lower risk investments.
- ***Real Estate.*** We invest in office, retail and industrial properties located throughout Canada. Real estate provides us with a predictable source of income and is expected to keep pace over time with inflation, both beneficial attributes.
- ***Infrastructure.*** Our infrastructure assets consist of a portfolio of global business and social service assets providing essential services, typically under long-term contracts. Infrastructure assets generally offer stable long-term cash flows. Like real estate, the long-term inflation sensitivity of infrastructure assets provides investors attractive attributes by keeping pace with inflation.
- ***Multi-Asset Strategies.*** Our multi-asset strategies portfolio consists of equities, bonds, commodities and other derivative instruments that utilize a broad array of strategies to earn equity-like returns, with lower levels of volatility. These strategies tend to be more complex than traditional strategies and require greater management oversight.

Benefit Costs

Types of benefit payments

A number of different benefits are administered by the WSIB in accordance with the WSIA and predecessor legislation, the *Workers' Compensation Act*. These benefits relate to compensating wage loss, and providing for health care treatments and other benefits to injured and ill workers and survivors. Each type of benefit is described in more detail below:

- Loss of earnings benefits compensate injured workers for earnings lost due to a work-related injury or illness occurring subsequent to 1998, starting the day after the injury or illness occurred. The benefit rate is based on 85% of the worker's pre-injury net average earnings, subject to legislated minimum and maximum amounts of compensation.

- Non-economic loss benefits represent compensation to a worker who suffers a permanent impairment as a result of an injury. Benefits are based on the severity of the permanent impairment. Non-economic loss benefits recognize the physical, functional or psychological loss resulting from a permanent impairment, beyond the wage loss.
- Health care costs are payments for professional services provided by health care practitioners, hospitals and health facilities as well as the cost of drugs that are required to facilitate recovery. In cases of serious injury, they may also include attendant services, home or vehicle modifications, assistive devices and prostheses, extraordinary transportation costs to obtain health care and other measures to improve the quality of an injured worker's life.
- External provider costs associated with the work reintegration program include payments to external agencies providing rehabilitation services, such as training programs to assist an injured worker's return to work and the costs of work transition assessments and plans. They are incurred when accommodations with the pre-injury employer are not available.
- Loss of retirement income benefits are payable to an injured worker who has received loss of earnings benefits for 12 continuous months or future economic loss benefits and was under the age of 64 at the date of injury. At age 65, the injured worker receives a benefit from contributions made to their Loss of Retirement Income account plus any investment income earned.
- Survivor pensions represent monthly benefits provided to the spouse, dependent children and other dependants of a worker whose death was the result of a workplace injury or occupational disease.
- Future economic loss benefits compensate workers injured after January 1, 1990, and prior to January 1, 1998, who cannot restore their pre-injury earnings as a result of a permanent impairment or temporary disability for 12 continuous months.
- Worker pensions represent pensions for injured workers suffering a workplace injury prior to January 1, 1990 based on the degree of the injured worker's disability.

Provision for claims

Benefit liabilities are established on a quarterly basis. They represent the present value of the expected future cost to satisfy all claims occurring prior to, but still outstanding as at the consolidated statement of financial position date. The liability consists of expected costs for reported claims, liabilities costs that have been incurred but not yet reported, and a provision for future occupational disease claims. The calculations are reviewed by our external auditors as part of the WSIB's annual financial audit.

Data and other factors that can influence the amount and timing of future payments are considered when calculating benefit liabilities. Some of the factors are based on historical trends, our governing legislation, as well as our policies, claims adjudication practices and appeal decisions. We also consider the development of future claim payment trends, which may be impacted by management actions, legislative changes, judicial decisions and economic conditions. Where possible, we apply multiple techniques to estimate the required benefits liability provisions. This approach provides additional insight into the trends inherent in the claims data being used to project the future payments valued in the benefits liability. Between the reporting and final disposition of a claim, circumstances may change, which may result in changes to the established liability. For example, changes in the provisions of the WSIA or medical costs could substantially impact the ultimate cost of a claim. Accordingly, we review and re-evaluate claims and their impact on the estimate of the benefit liability on a regular basis.

Provisions made for future occupational diseases recognize that workers exposed to hazardous substances or conditions in their workplaces may develop occupational diseases after long latency periods. These provisions are significant and are expected to increase in future years due to increasing causal evidence and projected increases in benefit costs. Benefit costs will vary depending on the type and characteristics of the injury, and the timing and management of the claim. Given the inherent uncertainties, the eventual cost to satisfy outstanding claims can vary substantially from the initial estimates.

Administration and other expenses

Administration and other expenses include the expenses necessary to support our various business activities.

Legislated obligations and commitments

The WSIB is required to reimburse the Government of Ontario for the administration of the *Occupational Health and Safety Act* (the "OHSA") and various organizations including Health and Safety Associations, Workers' Health and Safety Centre, Occupational Health Clinics for Ontario Workers, the Office of the Worker Advisor, the Office of the Employer Advisor, and the Workplace Safety and Insurance Appeals Tribunal (the "WSIAT"). The WSIB also is required to fund research. On April 1, 2012, responsibility for the administration of research grants was transferred to the MoL.

3. Our Strategy

A summary of our Strategic Plan

In 2012, we renewed our commitment to the fundamentals of the system and set a new strategic direction for the WSIB. The aim of the *2012 – 2016 Strategic Plan* is better, more effective and efficient delivery of benefits and services, and a sufficiently funded system. With this new strategic plan, the WSIB has set a course to realize its new vision: ***To be the leading workers' compensation board.***

New priorities, objectives, and initiatives will transform the WSIB into a modern organization that is better able to deliver the customer service excellence that workers and employers expect and deserve.

We are responding to stakeholder expectations for customer service and consultation; the importance of timely, quality health care and return to work services to maximize recovery, minimize injury duration, and reduce the likelihood of permanent impairment; the need for fiscal prudence; and the expectation to operate in an efficient, responsive and transparent manner.

Our 2013 Priorities

Funding Modernization

- Design and support the stakeholder consultations for reforms to employer classification, rate setting, experience rating and long-term funding policies.
- Launch public consultations led by Special Advisor to the Chair, Mr. Douglas Stanley.

Policy Renewal

- Delivery of a report by the independent Chair of the Benefit Policy Consultation, Mr. Jim Thomas, to provide sound advice to the WSIB and provide a framework on conducting future stakeholder engagements.
- Building on the outcome of the 2012 Benefits Policy Consultation, revise four key policies – Recurrences, Work Disruptions, Permanent Impairments and Aggravation Basis – to ensure they

clearly define the parameters for benefits and services, and facilitate fair, transparent and consistent decision-making.

- Improve the accuracy of policies with a series of housekeeping reforms with the aim of establishing an effective, efficient and sustainable renewal process.

Business Transformation

- Implementation of a modern accounts and claims system that supports our multi-channel customer interaction strategy and a seamless customer experience.
- Expansion of self-service options for our customers, real-time information availability, collaboration tools and predictive analytics capabilities, that will improve return to work and health recovery outcomes and provide better service to the workers and employers of the Province.

People Transformation

- Deliver the Human Resource Strategy which includes:
    - Talent Development initiatives to pro-actively manage the attraction, development and retention of talent.
    - Business Critical Roles initiative to identify, develop and enable the people that drive maximum value for the organization.

Channel Modernization

- Contact Centre technology expansion that will introduce processes to enhance quality, reporting and workforce planning.
- Implementation of Teleclaim to add the capability for employers to report claims via phone.

4. Operating Results

A more detailed discussion of our financial performance for the year ended December 31, 2012 compared to 2011

This section provides a detailed discussion of our financial performance. Certain prior year's figures have been reclassified to conform to the current year's presentation. Additionally, our consolidated financial statements have been prepared in accordance with IFRS. All amounts herein are in millions of Canadian dollars unless otherwise specified.

Financial highlights

The following table sets forth our annual operating results for the years ended December 31.

			Change	
(in millions of Canadian dollars)	**2012**	**2011**	**$**	**%**
Revenues				
Premiums	4,136	3,901	235	6.0
Net employer incentive programs	(75)	(25)	(50)	100+
	4,061	3,876	185	4.8
Net investment income				
Investment income	1,512	361	1,151	100+
Investment expenses	(111)	(99)	(12)	12.1
Income from associates and jointly controlled entities	58	34	24	70.6
	1,459	296	1,163	100+
	5,520	4,172	1,348	32.3
Expenses				
Benefit costs				
Benefit payments	2,664	2,850	(186)	(6.5)
Claim administration costs	449	370	79	21.4
Changes in actuarial valuation of benefit liabilities	660	2,040	(1,380)	(67.6)
	3,773	5,260	(1,487)	(28.3)
Loss of Retirement Income Fund contributions	67	70	(3)	(4.3)
Administration and other expenses	328	324	4	1.2
Legislated obligations and commitments	231	228	3	1.3
	4,399	5,882	(1,483)	(25.2)
Comprehensive income (loss)	1,121	(1,710)	2,831	100+
Comprehensive income (loss) attributable to:				
WSIB stakeholders	923	(1,763)	2,686	100+
Non-controlling interests	198	53	145	100+
	1,121	(1,710)	2,831	100+
Other measures				
Core Earnings[1]	345	34	311	100+
Return on investments[2]	10.5%	2.3%	8.2%	100+
Unfunded liability[3]	(13,299)	(14,222)	923	(6.5)
Funding ratio[4]	56.5%	52.1%	4.4%	8.4

Notes:

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1. Core Earnings is calculated as total comprehensive income excluding the impacts of investment income, changes in actuarial valuation and any items that are considered as material and exceptional in nature. See Section 14 – Non-IFRS Financial Measure.
2. Return on investments is calculated as the change in the fair value of the investment portfolio, taking into account capital contributions and withdrawals, prior to investment expenses.
3. Unfunded liability represents the deficiency of net assets attributable to WSIB stakeholders as at the end of the reporting period.
4. Funding ratio is calculated as total assets, excluding non-controlling interest in investments, divided by total liabilities as at the end of the reporting period.

Premiums

Premiums were $4,061 million compared to $3,876 million, an increase of $185 million or 4.8% and are segmented as follows:

(in millions of Canadian dollars)	**2012**	**2011**	**Change** **$**	**%**
Schedule 1 employer premiums				
Gross Schedule 1 premiums	4,024	3,794	230	6.1
Other income	8	2	6	100+
Interest and penalties	38	43	(5)	(11.6)
	4,070	3,839	231	6.0
Net employer incentive programs	(75)	(25)	(50)	100+
	3,995	3,814	181	4.7
Schedule 2 administration fees	66	62	4	6.5
	4,061	3,876	185	4.8

Gross premiums increased by $230 million or 6.1% reflecting $162 million attributed to a 4.2% increase in insurable earnings as detailed below and $68 million attributed to our increase in the average premium rate charges to employers in 2012.

Other income increased by $6 million representing funds received in settlement of litigation.

Interest and penalties, which represent charges levied to employers on account of late payment of premiums and regulatory fines, decreased by $5 million or 11.6% over the prior year reflecting the Province's strengthening economy in 2012.

Net employer incentive programs were $75 million, an increase of $50 million or 100+% primarily reflecting higher NEER rebates reflecting improved employer experience.

A comparison of employment, insurable earnings and gross premiums for the twelve months ended December 31, 2012, along with the percentage change from the prior year is as follows:

	Employment		**Insurable Earnings**		**Gross Premiums**	
(in millions of Canadian dollars)	**#**	**Change**	**$**	**Change**	**$**	**Change**
Industry						
Agriculture	52,073	4.4%	1,817	6.0%	73	8.2%
Automotive	137,666	4.3%	6,842	6.1%	234	8.2%
Construction	310,284	5.0%	15,668	6.9%	1,001	10.5%
Education	147,084	(2.7%)	6,486	3.3%	26	2.2%
Electrical	95,738	2.0%	5,239	0.2%	54	2.2%
Food	129,071	0.7%	4,860	3.9%	137	5.6%
Forestry	8,409	(2.5%)	364	0.6%	34	1.1%
Health care	482,379	4.6%	21,753	4.9%	334	6.9%
Manufacturing	929,091	1.1%	36,199	3.8%	625	5.6%
Mining	31,605	1.5%	2,018	7.5%	133	10.1%
Municipal	42,783	3.7%	2,004	3.8%	44	5.6%
Primary metals	27,889	(2.0%)	1,660	1.3%	47	2.8%
Process and chemicals	102,828	3,9%	4,448	3,1%	83	4.3%
Pulp and paper	16,943	(1.6%)	726	(3.0%)	22	(0.9%)
Services	1,493,978	4.3%	44,589	4.0%	717	5.8%
Transportation	238,520	3.2%	9,484	4.1%	438	6.3%
Total	**4,246,341**	**3.1%**	164,157	4.2%	4,002	7.1%
Premiums accrued but not reported			997	(0.7%)	22	(62.4%)
Total			**165,154**	**4.2%**	**4,024**	**6.1%**

Average premium rates

As communicated to employers in 2011, we increased our average published premium rate by 2.0% from $2.35 per $100 of insurable earnings in 2011 to $2.40 per $100 of insurable earnings in 2012, thereby allowing us to cover the costs of providing benefits to injured workers and the impact of inflation. This increase in average premium rates, along with several management initiatives such as our return to work efforts and improved health care strategy allowed us to offset our increased costs.

Between 2007 and 2010, our actual premium rates realized were between 1.0% and 3.0% below the average published premium rate for that year, resulting in a cumulative shortfall of $264 million of revenues. For the first time in 2011, actual premium rates realized were slightly in excess of the average published rate and continuing in 2012, we collected $2.44 per $100 of insurable payroll, above the average published premium rate of $2.40 but not fully recovering the previous years' accumulated deficit of expected premiums. The improvement in 2012 reflects stronger than anticipated growth in the automotive, construction, manufacturing, services and transportation industries, indicative of strengthening economic conditions.

A comparison of targeted and average premium rates collected for each of the past six years is noted below:

	Average Premium Rate (per $100 of insurable earnings)			**Variance to Premiums Expected ($ millions)**	
	Target	**Actual**	**Variance**	**Year**	**Cumulative**
2007	2.26	2.24	(0.02)	(28)	(28)
2008	2.26	2.23	(0.03)	(44)	(72)
2009	2.26	2.20	(0.06)	(94)	(166)
2010	2.30	2.23	(0.07)	(98)	(264)
2011	2.35	2.37	0.02	35	(229)
2012	2.40	2.44	0.04	62	(167)

Net Investment income

In 2012, we generated $1,459 million of net investment income representing a 10.5% rate of return, above our long-term target return of 6.0%, which is attributed to strong equity, credit and real estate markets. Over 10 and 15 years, our investment returns prior to investment expenses were 6.3% and 5.7% respectively.

A summary of investment income, segmented by asset class for the years ended December 31, 2012 and 2011 is as follows:

Asset Class	**2012**				**2011**			
(in millions of Canadian dollars)	**Investment income**	**Return %**	**Asset value**	**%**	**Investment income**	**Return %**	**Asset value**	**%**
Fixed income	162	3.7	4,568	26.0	432	9.7	5,064	32.4
Public equities	877	13.9	7,099	40.4	(432)	(7.0)	6,702	42.9
Multi-asset strategies	340	13.4	3,509	20.0	199	10.7	2,402	15.4
Real estate	158	13.5	1,351	7.7	182	13.9	1,212	7.8
Infrastructure	25	13.6	243	1.4	9	7.7	173	1.1
Cash and cash equivalents	8	-	737	4.2	5	-	1	0.0
Benefit annuities	-	-	72	0.4	-	-	74	0.5
Investment income	1,570	10.5	17,579	100.0	395	2.3	15,628	100.0
Investment expenses	(111)				(99)			
Net investment income	1,459				296			

For the year ended December 31, 2012, investment income, prior to $111 million of investment expenses, was $1,570 million reflecting a 10.5% rate of return compared to income of $395 million reflecting a 2.3% rate of return in the comparable period last year. The increase in investment income primarily reflects higher income from public equities, which generated a rate of return of 13.9% in 2012 compared to a negative rate of return of 7.0% in 2011.

The higher than expected returns in 2012 are not a reflection of expected future performance. We set our forward return expectations based on our long-term expected return of 6.0%. Consequently, our net investment income for 2013 is anticipated to be moderate relative to 2012. Our financial performance is heavily reliant on the amount of investment income we are able to generate as each 1.0% rate of return on investments of the WSIB Insurance Fund represents $125 million of net investment income equating to 8 cents of premium per $100 of insurable payroll or 3% of annual premiums.

Benefit costs

Benefit costs consist of: (i) benefit payments to or on behalf of injured workers; (ii) claim administration costs, which represent an estimate of our administration costs necessary to support benefit programs; and (iii) the change in the actuarial valuation of our benefit liabilities, which represents an adjustment to the actuarially determined estimates for future claim costs existing at the date of the consolidated statement of financial position. Total benefit costs were $3,773 million, a decrease of $1,487 million, or 28.2% as follows:

			Change	
(in millions of Canadian dollars)	**2012**	**2011**	**$**	**%**
Benefit payments	2,664	2,850	(186)	(6.5)
Claims administration costs	449	370	79	21.3
Change in actuarial valuation of benefit liabilities	660	2,040	(1,380)	(67.6)
Total benefit costs	3,773	5,260	(1,487)	(28.2)

Benefit payments

Benefit payments represent cash paid during the year to or on behalf of injured workers. Benefit payments are comprised of the following:

			Change	
(in millions of Canadian dollars)	**2012**	**2011**	**$**	**%**
Loss of earnings	968	1,069	(101)	(9.4)
Workers' pension	652	678	(26)	(3.8)
Health care	457	468	(11)	(2.4)
Future economic loss	259	278	(19)	(6.8)
Survivor benefits	176	172	4	2.3
External providers	65	86	(21)	(24.4)
Non-economic loss	60	88	(28)	(31.8)
Other	27	11	16	100+
Total benefit payments	2,664	2,850	(186)	(6.5)

A summary of the changes in benefit payments for 2012 is as follows:

- Loss of earnings benefits decreased by $101 million or 9.4% reflecting 7,157 or 9.9% fewer non-locked-in claims as at December 31, 2012 compared to the same period in 2011. This decrease was primarily due to improved claims management through better recovery and return to work outcomes as well as 512 or 1.3% fewer new lost time injuries.

- Workers' pensions decreased by $26 million or 3.8% reflecting the natural reduction of claims due to mortality.
- Health care costs decreased by $11 million or 2.4% reflecting a 4.0% decrease in the number of claims requiring health care services. This change reflects a reduction in drug payments due to price reductions for generic drugs and fewer narcotics and increases in payments to specialty clinics and programs of care supporting early return to work of injured workers.
- Future economic loss benefits decreased by $19 million or 6.8% reflecting the natural drop in the number of claimants that reach age 65, the age at which these benefits cease.
- Survivor benefits increased by $4 million or 2.3% reflecting annual indexation and a higher number of traumatic fatalities in 2012.
- External providers expense decreased by $21 million or 24.4% primarily due to fewer lost-time injuries in recent years, in-sourced administration of the work reintegration program, and a more targeted approach to return to work.
- Non-economic loss awards decreased by $28 million or 31.8% reflecting fewer lost-time injuries in recent years, and the impact of more effective health care support resulting in a 27.5% reduction in the average permanent impairment award.
- Other benefit costs increased by $16 million or 100+% primarily due to lower recoveries related to asbestos settlements from United States-based bankruptcy trusts.

Claims administration costs

Claims administration costs represent allocation of overhead costs relating to the administration of claims and were $449 million compared to $370 million, an increase of $79 million or 21.3%. This increase was primarily due to a $47 million increase in long-term benefit plans expenses reflecting a lower discount rate and other changes in actuarial assumptions, $13 million due to the accelerated amortization of intangible assets, and $13 million due to termination benefits reflecting a reduction in staff levels.

Changes in actuarial valuation of benefit liabilities

The changes in actuarial valuation of benefit liabilities represent the present value of future payments for loss of earnings and other disability benefits, health care, survivor, labour market re-entry and claim administration related to claims that occurred on or before December 31, 2012, and for occupational disease claims expected to arise in the future as a result of exposures which were incurred in the workplace on or before December 31, 2012 in respect of occupational diseases currently recognized by the WSIB. In 2012, benefit liabilities relating to Schedule 1 employers, increased from $26,390 million to $27,050 million, an increase of $660 million (or 2.5%), compared to an increase of $2,040 million in 2011 (or 8.4%) which was mainly due to the discount rate change from 7.0% to 5.5% per annum for the period from 2012 to 2015 and 6.0% per annum thereafter. The $660 million of change in benefit liabilities in 2012 is summarized as follows:

- The discount rate assumption of 5.5% was extended two years to 2017, and 6.0% thereafter, reflecting our near-term investment outlook and resulting in a $150 million increase in benefit liabilities.
- Revised assumptions to reflect the trend and costs of long latency occupational disease claims resulted in an increase of $775 million in benefit liabilities. This liability now represents $1,425 million or 5.3% of benefit liabilities as at December 31, 2012.

- A thorough review of all other assumptions, including refinements to the methodology for determining outstanding claims liabilities, loss of earnings and health care benefits, and the basis for estimating future costs, resulted in an additional increase of $713 million in benefit liabilities.
- Favourable experience during the year led to a decrease of $978 million in benefit liabilities.

Administration and other expenses

Administration and other expenses, before allocation to benefit costs, decreased by $18 million or 2.6% prior to reflecting a $79 million increase in the cost of long-term benefit plans and $22 million of termination benefits.

A summary of changes in administration and other expenses for 2012 compared to 2011 is as follows:

			Change	
(in millions of Canadian dollars)	**2012**	**2011**	**$**	**%**
Salaries and short-term benefits	374	374	-	-
Long-term benefit plans	169	90	79	87.8
Facilities	44	44	-	-
Amortization	43	22	21	95.5
Equipment and maintenance	36	32	4	12.5
Bad debts	25	38	(13)	(34.2)
New systems development and integration	22	6	16	100+
Termination benefits	22	-	22	100+
Communications	10	10	-	-
Impairment of intangible assets	5	51	(46)	(90.2)
Other	27	27	-	-
	777	694	83	12.0
Claim administration costs allocated to benefit costs	(449)	(370)	(79)	21.4
Total administration and other expenses	328	324	4	1.2

- Salaries and short-term benefits were unchanged despite $14 million of inflationary pressures, merit increases and joint job evaluation salary increases offset by savings due to the reduction of 330 full-time positions, as part of our business transformation efforts.
- Long-term benefit plans increased by $79 million reflecting $20 million attributed to a 95 basis point reduction in the discount rate and $59 million attributed to other actuarial assumptions.
- Amortization increased by $21 million primarily due to the accelerated amortization of intangible assets as a result of our business transformation efforts.
- Equipment and maintenance expense increased by $4 million due to higher software licence fees.
- Bad debts decreased by $13 million primarily due to favourable experience.
- New systems development and integration increased by $16 million reflecting business transformation projects as part of our modernization efforts and improved efficiency for the benefit of both employers and injured workers.
- Termination benefits increased by $22 million reflecting costs incurred to reduce our staffing levels by 330 full-time positions as previously noted.
- Communications expenses remained unchanged compared to 2011, and were primarily comprised of voice and data communication costs and postage.

- Impairment of intangible assets decreased $46 million due to the absence of a $51 million non-cash provision incurred in 2011, partially offset by a $5 million expense in 2012 from business transformation initiatives.
- Refer to Section 4 – Operating Results for a detailed discussion of claims administration costs.

Legislated obligations and commitments

Legislated obligations were $231 million, an increase of $3 million or 1.3%, as follows:

(in millions of Canadian dollars)	2012	2011	Change $	Change %
Legislated obligations				
Occupational Health and Safety Act	86	95	(9)	(9.5)
Ministry of Labour Prevention Costs	76	3	73	100+
	162	98	64	65.3
Workplace Safety and Insurance Appeals Tribunal	22	22	-	-
Program administration	1	1	-	-
Office of the Workers' Adviser	12	11	1	9.1
Office of the Employers' Adviser	4	3	1	33.3
	17	15	2	13.3
Total legislated obligations	201	135	66	48.9
Commitments				
Safe Workplace Associations	17	66	(49)	(74.2)
Workplace Health and Safety Centre	2	10	(8)	(80.0)
Health clinics	2	7	(5)	(71.4)
Grants	4	5	(1)	(20.0)
Institute for Work and Health	5	5	-	-
Total commitments	30	93	(63)	(67.7)
	231	228	3	1.3

On April 1, 2012, the MoL assumed responsibility for prevention activities which were previously carried out by the WSIB. Accordingly, amounts previously incurred by the WSIB for prevention activities recorded as Commitments are now recorded as legislated obligations. For the year ended December 31, 2012, legislated obligations and commitments were $231 million, an increase of $3 million or 1.3% compared to the prior period primarily due to the transfer of prevention costs from WSIB administration to the MoL, reflecting the transfer of this mandate in 2012.

The decrease in OHSA costs in 2012 reflects a one-time credit of $6 million received from the MoL and $3 million of savings realized in the MoL's 2011-2012 fiscal year.

5. Financial Condition

A discussion of the significant changes in our December 31, 2012 consolidated statement of financial position

Changes in our consolidated statement of financial position are as follows:

(in millions of Canadian dollars)	2012	2011	Changes $	Changes %	Commentary
Assets					
Cash and cash equivalents	1,331	983	348	35.4	See Section 7 – Liquidity and Capital Resources
Receivables	1,009	1,041	(32)	(3.1)	Lower employer incentive surcharges reflecting better claims experience
Investment receivables	159	115	44	38.3	Increase in unsettled investment transactions
Investments	15,100	13,648	1,452	10.6	Increase in fair value of investments and $300 million of cash and cash equivalents transferred to investment portfolio
Investments under securities lending program	592	523	69	13.2	Higher cash collateral held to cover futures contracts
Investments in associates and jointly controlled entities	386	375	11	2.9	Increase in equity income earned and new investments partially offset by dispositions and dividends
Investment property	643	488	155	31.8	Increased property acquisitions, property fair value increases and additional capital expenditures
Property and equipment	147	159	(12)	(7.5)	Reduction due to amortization
Intangible assets	17	50	(33)	(66.0)	Useful life reduction reflecting business transformation initiatives
Liabilities					
Payables and accruals	1,038	1,077	(39)	(3.6)	Higher employer incentive program rebates
Investment payables	38	23	15	65.2	Increase in investment pending trades
Long-term debt	169	143	26	18.2	Increased number of properties purchased with associated mortgage loans
Loss of Retirement Income Fund liability	1,377	1,254	123	9.8	Higher investment returns
Employee benefit plans	908	812	96	11.8	Increase in liabilities due to lower interest rates and additional liability for long-term disability
Benefit liabilities	27,050	26,390	660	2.5	Change in actuarial methods and assumptions. See Section 4 – Operating Results
Unfunded liability	(13,299)	(14,222)	923	(6.5)	Comprehensive income attributable to WSIB stakeholders

6. Summary of Quarterly Results

A summary view of our quarterly financial performance

Selected financial information for the eight consecutive quarters ended December 31, 2012 is as follows:

	2012				2011			
(in millions of Canadian dollars)	**Q4**	**Q3**	**Q2**	**Q1**	**Q4**	**Q3**	**Q2**	**Q1**
Net premiums	977	1,058	1,056	970	987	999	992	898
Net investment income (loss)	433	488	(165)	703	613	(687)	100	270
Benefit costs								
Benefit payments	649	637	673	705	692	695	719	744
Claims administration costs	125	99	102	123	97	90	91	92
Change in actuarial valuation of benefit liabilities	512	8	150	(10)	2,400	(309)	(112)	61
	1,286	744	925	818	3,189	476	698	897
Loss of Retirement Income Fund contributions	17	16	17	17	17	18	17	18
Administration and other expenses	100	71	75	82	113	68	71	72
Legislated obligations and commitments	69	67	36	59	60	58	53	57
Comprehensive income (loss) attributable to WSIB stakeholders	(120)	584	(145)	604	(1,867)	(221)	239	86
Other measures								
Core Earnings[1]	22	174	159	(10)	8	70	41	(85)
Unfunded liability[2]	13,299	13,179	13,763	13,618	14,222	12,355	12,134	12,373
Funding ratio (%)[3]	56.5	56.3	54.2	54.2	52.1	54.9	56.0	55.3
Return on investments (%)[4]	2.8	3.4	(1.0)	5.1	4.4	(4.7)	0.8	2.0

Notes:

1. Core Earnings is calculated as total comprehensive income excluding the impacts of investment income, changes in actuarial valuation and any items that are considered as material and exceptional in nature. See Section 14 – Non-IFRS Financial Measure.
2. Unfunded liability represents the deficiency of net assets attributable to WSIB stakeholders as at the end of the reporting period.
3. Funding ratio is calculated as total assets, excluding non-controlling interest in investments, divided by total liabilities as at the end of the reporting period.
4. Return on investments is calculated as the change in the fair value of the investment portfolio, taking into account capital contributions and withdrawals, prior to investment expenses. Does not equal annual figures due to rounding.

Notable items affecting our fourth quarter 2012 results compared to 2011 are as follows:

- Premiums were $977 million compared to $987 million, a decrease of $10 million or 1.0%, reflecting a $5 million increase in gross premiums due to higher insurable earnings, a $9 million increase in other income reflecting litigation settlement, which were offset by a higher net outflow of $24 million in our employer incentive programs reflecting improved return to work outcomes and finalization of year-end amounts.
- Net investment income was $433 million or 2.8% compared to $613 million or 4.4%, a decrease of $180 million primarily attributed to lower income from fixed income and real estate investments.
- Benefit payments were $649 million compared to $692 million, a decrease of $43 million or 6.2%, reflecting improved recovery and return to work outcomes for injured workers.
- Claims administration costs were $125 million compared to $97 million, an increase of $28 million or 28.9% reflecting a $22 million increase in long-term benefit plans expenses and $12 million due to the accelerated amortization of intangible assets.

- Change in actuarial valuation of benefit liabilities was $512 million, reflecting a $175 million increase attributed to the provision for long latency occupational disease claims and a $965 million increase for other actuarial assumption changes, partially offset by $628 million reflecting favourable experience.
- Loss of retirement income fund contributions were $17 million, unchanged from 2011.
- Administration and other expenses were $100 million compared to $113 million, a decrease of $13 million or 11.5%. This decrease reflects the absence of a $51 million non-cash impairment of intangible assets incurred in 2011, a $5 million expense in 2012 reflecting business transformation initiatives, a $16 million increase attributed to higher long-term benefit plans expenses, an increase of $9 million due to the accelerated amortization of intangible assets, and an increase of $8 million in other administrative expenses.
- Legislated obligations and commitments were $69 million compared to $60 million, an increase of $9 million or 15.0%, reflecting the timing of payments made to the MoL.

Our quarterly revenues and expenses are impacted by a number of trends and recurring factors such as seasonality as well as general economic and market conditions. Seasonal factors impact our premium revenues, particularly in the construction industry, which had higher insurable earnings in 2012 due to increased construction projects supported by strengthening economic conditions. Our premium revenues are also impacted by insurable earnings, which rise and fall with the employment levels in the industries we insure. Additionally, net investment income is influenced by global capital markets and has been volatile on a quarterly basis. We anticipate the volatility in net investment income will continue into 2013.

Refer to Section 4 – Operating Results for a discussion of the current annual results.

7. Liquidity and Capital Resources

A discussion of cash flow, liquidity, credit facilities and other arrangements

The purpose of liquidity management is to ensure there is sufficient cash to meet our financial commitments and obligations as they fall due. We believe we have the flexibility to obtain, from current cash holdings and ongoing operations, the funds needed to fulfill our cash requirements during the current financial period. We have three sources of funds: (i) premiums charged to employers; (ii) investment income; and (iii) cash and short-term investments.

Our funds are primarily used to satisfy benefit payments and operating expenses. As at December 31, 2012, we held $1,331 million of cash and cash equivalents of which $737 million was held for investing, $439 million was held for operating purposes, and $155 million was held in our loss of retirement income fund on behalf of injured workers.

(in millions of Canadian dollars)	**2012**	**2011**
Cash and cash equivalents, beginning of year	983	1,009
Cash provided by operating activities	436	91
Cash used in investing activities	(72)	(103)
Cash used in financing activities	(16)	(14)
Cash and cash equivalents, end of year	1,331	983

For the year ended December 31, 2012, cash provided by operating activities was $436 million compared to $91 million for the comparable period in 2011 reflecting continued improvements in operating performance. Cash used by investing activities was $72 million compared to $103 million for the comparable period in 2011 primarily due to additional investments. Cash used in financing activities was $16 million compared to $14 million for the comparable period in 2011, reflecting net distributions paid to non-controlling interests.

Credit facilities

We maintain a $150 million unsecured line of credit with a commercial bank for general corporate purposes. As at December 31, 2012, we had not utilized any of this credit facility.

New legislation and regulation to eliminate unfunded liability

On June 5, 2012, the Government of Ontario filed *Ontario Regulation 141/12* (the "Regulation") requiring the WSIB to ensure the Insurance Fund meets the following ratios by the following dates:

- 60 per cent on or before December 31, 2017;
- 80 per cent on or before December 31, 2022; and
- 100 per cent on or before December 31, 2027.

In addition, Section 96.1(1) of the WSIA requires the WSIB to develop and implement a plan to achieve sufficiency of the Insurance Fund. The Regulation sets out the information to be included in the plan and requires that the plan be submitted to the Minister by June 30, 2013. This Regulation came into force on January 1, 2013. An important component of the sufficiency plan is the development of a funding policy, which is currently being developed by the WSIB and will outline the principles believed to best represent the tenets of a fair and transparent funding system, which are concurrently being considered in the development of the WSIB's rate framework consultations. These tenets, which are more fully described within the policy itself, include but are not limited to: collective liability, fairness, stability of premiums, transparency, promotion of positive behaviours, financial security, ease of administration and compliance with the WSIA.

Commitments

a) Operating leases

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

(in millions of Canadian dollars)	**Minimum lease payments**
Not later than one year	13
Later than one year and not later than five years	24
Later than five years	9
	46

b) Investment commitments

The WSIB had commitments to fund real estate and infrastructure investments for $14 million and $417 million, respectively. In addition, the WSIB had $222 million of commitments for additional investments in associates and jointly controlled entities. Once funded, the percentage allocation to both real estate and infrastructure investment portfolios will increase thereby further diversifying our investment portfolio and reducing volatility.

c) Commitments for legislated obligations

Known commitments related to legislated obligations for 2013 are projected to be approximately $240 million related to the Government of Ontario as further discussed in Section 11 – Outlook.

d) Other commitments

The WSIB has commitments over the next five years under non-cancellable contracts for purchases of goods and services with minimum future payments of approximately $144 million.

8. Critical Accounting Estimates and Judgments

A description of the critical accounting estimates and judgments that affect the measurement and presentation within the consolidated financial statements

The preparation of the consolidated financial statements requires the WSIB to apply judgment when making estimates and assumptions that affect the reported amounts recognized in the consolidated financial statements. These estimates have a direct effect on the measurement of transactions and balances recognized in the consolidated financial statements, and actual results could differ from those estimates. Estimates are reviewed on an ongoing basis, with any related revisions recorded in the period in which they are adjusted.

In addition, the WSIB has made judgments, aside from those that involve estimates, in the process of applying its accounting policies. These judgments can affect the amounts recognized in the consolidated financial statements.

Benefit liabilities

Benefit liabilities represent the actuarially determined present value of future payments for reported and unreported claims related to workers of Schedule 1 employers incurred on or prior to the reporting date, and for occupational disease claims expected to arise in the future as a result of exposures incurred in the workplace on or prior to the reporting date in respect of occupational diseases currently recognized by the WSIB. The measurement of the benefit liabilities requires the actuary to make estimates and assumptions for a number of factors, including those for claim duration, mortality rates, wage escalation, expected return on investments, general inflation and discount rates. Changes in these estimates and assumptions could have an impact on the measurement of the benefit liabilities and benefit costs.

Employee benefit plans

The costs and liabilities associated with defined benefit pension plans and other long-term employee benefit plans are determined in accordance with actuarial valuations. The actuarial valuations rely on estimates and assumptions including those for wage escalation, expected return on plan assets, health care and dental cost inflation, retirement ages, life expectancies and discount rates. Changes in these estimates could have an impact on the employee benefit plans liability and employee benefit costs.

Fair value measurement of financial instruments

Where possible, the fair value of publicly traded financial instruments is based on quoted market prices. The fair value for a substantial majority of financial instruments is based on quoted market prices or valuation models that use observable market inputs such as interest rate yield curves. Valuation models incorporate prevailing market rates and may require estimates for economic risks and projected cash flows.

Fair value measurement of investment properties

The WSIB's investment properties are owned indirectly through subsidiaries or jointly controlled entities. Investment properties are re-measured to fair value at each reporting date, estimated based on annual valuations performed by third-party appraisers. On a quarterly basis, the fair value of investment properties is updated based on internal valuation models incorporating available market evidence. When estimating the fair value of investment properties, estimates and assumptions are made that have a significant effect on the reported value of investment properties. Estimates and assumptions used in determining the fair value of the investment properties include discount and terminal capitalization rates, inflation rates, vacancy rates, and future net cash flows of the property.

9. Recent Accounting Pronouncements

A discussion of new and amended IFRS developments that will or might have an effect on our consolidated financial statements

The following new or amended accounting standards have been issued by the International Accounting Standards Board ("IASB"), but are not yet effective and have not been applied.

International Accounting Standard 19 *Employee Benefits* ("IAS 19")

Amendments to IAS 19 were issued in June 2011. The amended standard is effective for annual periods beginning on or after January 1, 2013.

The amended standard eliminates the corridor approach to recognizing actuarial gains and losses, and requires the effect of all remeasurements to be recognized in other comprehensive income. The amendments also replace the concept of return on plan assets and interest cost with a net interest cost that is calculated by multiplying the discount rate by the net liability. Changes in the defined benefit obligation and in the fair value of plan assets are segmented into three components: service costs; net interest on the net defined benefit liabilities; and remeasurements of the net defined benefit liabilities. The amendments also enhance disclosure about the risks arising from defined employee benefit plans.

The amended standard will have the following effect on the 2012 comparative information in the WSIB's consolidated financial statements when it is applied retrospectively by the WSIB beginning January 1, 2013:

	Increase	
	December 31 2012	**January 1 2012**
Employee benefit plan liability	762	585
Unfunded liability	762	585

	Increase (Decrease) December 31, 2012
Employee benefit expense	14
Remeasurements of defined benefit plans	163
Comprehensive income	(177)

IFRS 10 *Consolidated Financial Statements* ("IFRS 10")

IFRS 10 was issued in May 2011 and is effective for annual periods beginning on or after January 1, 2013.

IFRS 10 requires an entity to consolidate an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Under existing IAS 27 *Consolidated and Separate Financial Statements* ("IAS 27"), consolidation is required when an entity has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. IFRS 10 will replace Standing Interpretations Committee 12 *Consolidation – Special Purpose Entities* ("SIC 12") and parts of IAS 27.

The WSIB does not expect that IFRS 10 will have a significant effect on its consolidated financial statements.

IFRS 11 *Joint Arrangements* ("IFRS 11")

IFRS 11 was issued in May 2011 and is effective for annual periods beginning on or after January 1, 2013.

IFRS 11 requires interests in joint arrangements to be classified as a joint venture or joint operation. A joint arrangement is an arrangement in which two or more parties have joint control. Joint ventures will be accounted for using the equity method of accounting whereas a party with joint control of a joint operation will recognize its share of the assets, liabilities, revenues and expenses of the joint operation. Under existing IFRS, entities have the choice to proportionately consolidate or equity account for interests in certain joint ventures. IFRS 11 will replace IAS 31 *Interests in Joint Ventures* and SIC 13 *Jointly Controlled Entities – Non-monetary Contributions by Venturers*.

The WSIB does not expect that IFRS 11 will have a significant effect on its consolidated financial statements.

IFRS 12 *Disclosures of Interest in Other Entities* ("IFRS 12")

IFRS 12 was issued in May 2011, and is effective for annual periods beginning on or after January 1, 2013.

IFRS 12 establishes disclosure requirements for interests in other entities, such as subsidiaries, joint arrangements, associates and unconsolidated structured entities. This IFRS standard carries forward existing disclosures and also introduces significant additional disclosure requirements that address the nature of, and risks associated with, an entity's interests in other entities. The standard also requires enhanced disclosures of how control was determined and any restrictions that might exist on consolidated assets and liabilities within the consolidated financial statements.

Financial statement note disclosures will be amended to reflect the requirements of IFRS 12, however the WSIB does not expect a significant effect on its consolidated financial statements.

IFRS 13 *Fair Value Measurement* ("IFRS 13")

IFRS 13 was issued in May 2011, and is effective for annual periods beginning on or after January 1, 2013.

IFRS 13 defines fair value and sets out a single IFRS framework for measuring fair value that is applied in most circumstances where IFRS requires or permits measurements or disclosures of fair value. The new standard clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants, at the measurement date. IFRS 13 also establishes disclosures about fair value measurement.

The WSIB does not expect that IFRS 13 will have a significant effect on its consolidated financial statements.

IAS 1 *Presentation of Financial Statements* ("IAS 1")

Amendments to IAS 1 were issued in June 2011. The amended standard is effective for annual periods beginning on or after July 1, 2012. The amendments to IAS 1 will require entities to group items presented in other comprehensive income based on an assessment of whether such items may, or may not, be reclassified to earnings at a subsequent date.

The WSIB does not expect these amendments will have a significant effect on its consolidated financial statements.

IAS 32 *Financial Instruments Presentation* ("IAS 32") and IFRS 7, *Financial Instruments Disclosures* ("IFRS 7")

Amendments to IAS 32 and IFRS 7 were issued in December 2011. The amended IFRS 7 is effective for annual periods beginning on or after January 1, 2013 with earlier application permitted. The amended IAS 32 is effective for annual periods beginning on or after January 1, 2014.

The amendments to IAS 32 clarify the existing requirements for offsetting financial instruments. The amendments to IFRS 7 include new disclosure requirements intended to facilitate comparisons to financial statements prepared under United States GAAP.

The WSIB does not expect these amendments will have a significant effect on its consolidated financial statements.

IFRS 9 *Financial Instruments* ("IFRS 9")

IFRS 9 was issued in November 2009, and subsequently revised in October 2010 as part of the IASB's ongoing project to replace IAS 39 *Financial Instruments: Recognition and Measurement* ("IAS 39"). IFRS 9 is effective for annual periods beginning on or after January 1, 2015.

IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or at fair value, replacing the multiple classifications in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. The standard also includes guidance on the classification and measurement of financial liabilities, which largely carried forward the existing requirements in IAS 39.

The IASB has proposed further amendments including a third category "fair value through other comprehensive income" for certain investments in debt securities and expects to include these amendments in IFRS 9 prior to 2015.

The WSIB has not completed its assessment of the effect IFRS 9 may have on its consolidated financial statements.

Exposure drafts

a) Insurance contracts

In July 2010, the IASB issued an exposure draft containing proposals for significant changes to the existing recognition, measurement, presentation, and disclosure requirements for insurance contracts. The IASB continues to work on these proposals with the objective of finalizing a new standard to replace IFRS 4 *Insurance Contracts*. This is an important standard that is expected to have a significant effect on the WSIB's consolidated financial statements, primarily as it relates to the measurement of benefit liabilities. The new standard is not finalized and will not have an effect on the consolidated financial statements until it is issued and effective. The date the new standard will be issued and the date the new standard will be effective are uncertain.

b) Other

The IASB regularly issues exposure drafts with proposals for new standards or amendments to existing standards. The WSIB's consolidated financial statements do not include disclosure of all exposure drafts issued by the IASB.

10. Legal Contingencies

A discussion of our legal proceedings, claims and other legal contingencies

The WSIB is engaged in various legal proceedings and claims that have arisen in the ordinary course of business, the outcome of which is subject to future resolution. Based on information currently known to the WSIB, management believes the probable ultimate resolution of all existing legal proceedings and claims will not have a material effect on the WSIB's financial position.

The WSIB has provided formal written indemnities to its current and former directors to indemnify them, to the extent permitted by law, against any and all charges, costs, expenses, and amounts paid in settlement and damages incurred as a result of any lawsuit or any other judicial, administrative or investigative proceeding in which they are involved as a result of their services.

Additionally, the WSIB has purchased directors' and officers' liability insurance. The WSIB also indemnifies and provides legal representation to all its employees, former employees and persons engaged by the WSIB to conduct an examination, test, enquiry or other authorized function in legal proceedings arising out of alleged acts or omissions in the performance of their duties, provided the person has acted honestly and in good faith.

Also, in the normal course of operations, the WSIB may enter into contractual arrangements with external parties that involve promises to indemnify the other party under certain circumstances. As part of its investment function, the WSIB may also provide indemnification agreements to counterparties that would require the WSIB to compensate them for costs incurred as a result of changes in laws and regulations or as a result of litigation claims or statutory sanctions that may be suffered by the counterparty as a consequence of the transaction. The terms of these indemnification arrangements will vary.

11. Outlook

The outlook for our business

The following contains forward-looking statements about the outlook for our business. Reference should be made to Section 16 – Forward-Looking Statements at the end of this MD&A. For a description of risk factors that could cause our actual results to differ materially from the forward-looking statements in the following, please also see Section 13 – Risk Factors in this MD&A and Note 21 – Financial Risk Management in our consolidated financial statements.

We made significant progress in 2012 transforming the WSIB and achieved significant operational and financial improvements, as evidenced by an increase of $311 million in Core Earnings and an increase of $2,831 million in comprehensive income. In 2013, we will continue to modernize the WSIB, stabilize our finances, and deliver service improvements for workers and employers.

Given the size of our unfunded liability today and the fundamental challenge of funding both existing and new types of compensable claims, responsible decisions continue to be made. Stakeholders appreciate the need to return the Province's compensation system to sustainability while at the same time continuing to see that injured workers are supported in their effort to return to work expeditiously and with dignity. Management is also acutely aware of these needs and is now implementing a comprehensive strategy that will see the WSIB continue to increase its operational effectiveness concurrent with reducing its unfunded liability.

In the coming years, we anticipate realizing significant enhancements and changes to the way we focus our resources, assess and meet the needs of stakeholders and deliver services. Additionally, once our funding policy, establishing how we anticipate funding our operations, is developed and implemented, we anticipate posting it on our website to provide even greater transparency.

Outlined below are the initiatives being undertaken to best align our resources to achieve financial sustainability.

Economics and demographics

We expect insurable earnings to grow by 3% consisting of a 1% increase in employment growth and a 2% increase in wages. Unemployment rates are forecasted to be 7.4% in 2013, a modest decrease from 7.9% in 2012. This environment still poses challenges to return to work efforts, which potentially may result in longer duration and more costly claims. Further, the demographic trend of a growing percentage of older workers than ever before adds additional labour supply pressures. As well, the trend to more part-time and temporary work may result in higher claims volumes and costs due to challenges with return to work programs. Accordingly, we have only assumed modest employment and wage growth in reflecting a conservative approach to forecasting in light of the uncertainty of today's economy. Globally, the economic conditions remain highly volatile considering the Euro crisis, United States debt concerns, fiscal consolidation in developed countries, and debt constrained households, which may dampen growth prospects further over the next several quarters.

Premiums

The 2.5% increase in premiums announced in the fall of 2012 for 2013 is anticipated to increase the average premium rate in 2013 from $2.40 to $2.46 per $100 of insurable earnings. We anticipate that the modest increase in premium rates, combined with expected growth in insurable earnings will result in an increase in premium revenues by approximately $0.1 billion to $4.2 billion in 2013. Employers continue to contribute towards the financial stability of the workplace insurance system.

Additionally, Bill 119, which came into effect on January 1, 2013, mandates that approximately 90,000 independent operators in the construction industry will be required to register and pay premiums. We anticipate this legislation will generate incremental premium revenues in 2013; however, it will be offset by benefit costs to these injured workers and hence will have little impact on our unfunded liability.

We anticipate that the experience rating costs will increase from $75 million in 2012 to $92 million in 2013, substantially as a result of continued improved claim performance. The lack of revenue neutrality with respect to the WSIB's existing experience rating programs is considered as part of the WSIB's rate framework consultation, led by Mr. Douglas Stanley. The WSIB will provide due consideration to this matter taking into account Mr. Stanley's final report and recommendations.

Net investment income

We anticipate net investment income will approximate 6.0% over the long term. While we expect improving economic conditions, especially in the United States, there is still economic uncertainty, particularly within the European Union, and we expect interest rates to remain low. We will continue to implement our Strategic Investment Plan in a way that permits us to take advantage of investment opportunities without exposing us to a higher level of volatility and corresponding investment risk.

Benefit costs

As we continue to focus our efforts on helping injured workers recover and return to work, we expect the downward trend in benefit costs to continue.

Fewer paid lost-time injuries, faster and more efficient claims management and better management of health care costs have led to improved return to work outcomes for injured workers and a reduction in benefit payments. We anticipate benefit payments to injured workers will continue to trend down in 2013 representing the fourth consecutive year of reductions after ten consecutive years of rising costs. Despite these actions, it is quite possible new types of compensable claims in areas such as occupational disease will add to our benefit costs. In 2012, for example, our reserve for long latency occupational disease increased by $775 million to $1,425 million.

Fewer lost-time claims and continued improvements in return to work and recovery outcomes for injured workers have led to a $186 million, or 6.5% reduction in benefit costs paid, the third year of decline after 10 consecutive years of increases.

We have assumed inflation will remain at the Bank of Canada's target of 2.0% per annum. Accordingly, benefit payments would increase as they are indexed with inflation.

Administration and other expenses

We anticipate stable administration and other expenses, prior to an increase of approximately $11 million reflecting higher long-term benefit plan expenses attributable to a lower discount rate.

Legislated obligations

Legislated obligations in 2013 are anticipated to be approximately $240 million, an increase of $9 million or 3.9% reflecting adjustments related to timing of authorized payments to the MoL and the impact of full year costs related to the prevention program moving to the MoL.

Unfunded liability

Based on current funding and benefit levels and as measured under current accounting and actuarial standards we believe the unfunded liability will decrease in 2013 and beyond, reflecting continued improved operating performance.

12. Internal Control over Financial Reporting

A statement of responsibilities regarding internal control over financial reporting

Management is responsible for the accuracy, integrity and objectivity of the consolidated financial statements within reasonable limits of materiality. The WSIB's internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements for external purposes in accordance with IFRS. Management is also responsible for the preparation and presentation of additional financial information included in the annual report and ensuring its consistency with the consolidated financial statements.

13. Risk Factors

A discussion of the more significant risk factors affecting our business

Introduction

We face a number of different risks and uncertainties that expose us to possible losses. Set forth below are those risks and uncertainties that we currently believe to be material. They are not, however, the only risks and uncertainties we face. If any of these risks (or any other risks and uncertainties that we have not yet identified, or that we currently consider to be not material) actually occur or become material, our business prospects, financial condition, results of operations and cash flows could be adversely affected. While we employ a broad and diversified set of risk mitigation techniques, those techniques and the judgments that accompany their application cannot anticipate every outcome or the specifics and timing of such outcomes.

Below are the financial, operational, regulatory and political risks we monitor and mitigate within our span of control.

Financial risks

Benefit liabilities

The WSIB, as the trust agency for administering the Province's compensation system, must ensure there is adequate provision of funds to cover the cost of future claims. Benefit liabilities, required to cover the ultimate benefits to be paid on reported and unreported claims, are calculated using sound actuarial practices to estimate costs based on a number of factors. (See Section 8 – Critical Accounting Estimates and Judgments)

Establishing an appropriate level of benefit liabilities is, therefore, an inherently uncertain process which presents number of risks that could adversely affect our comprehensive income and financial condition.

The risks are predominantly related to:

- Failure to accurately make assumptions and assess the factors of claims costs which may result in setting premium rates that are inadequate to cover costs and achieve sufficiency targets set by government
- Unforeseen changes in the factors used to calculate the ultimate claims costs could render our estimates inaccurate

We mitigate these risks:

- By utilizing both proprietary and commercially available actuarial models and assessing historical loss development patterns
- With regular, ongoing reviews and re-evaluation of claims and their impact on the estimate of the benefit liability
- By engaging external actuaries to review actuarial assumptions and methodologies in establishing benefit liabilities
- By reviewing actuarial related matters at regular meetings with our Actuarial Advisory Committee and our Chief Statistician

Investment risks

Our ability to meet our long-term obligations is dependent upon the sufficiency of our investment fund. The risks to our investment fund relate to liquidity, credit and the market. Our primary investment risk is that investment returns, taken together with a reasonable and sustainable level of contributions, are insufficient to meet the long-term obligations for which the fund is established. This risk would be manifest in the failure to achieve a return of at least the long-term actuarial discount rate of 6.0% (5.5% to 2017 and 6.0% thereafter) over a horizon of rolling ten to fifteen-year periods.

Our overarching risk mitigation tool is:

- The diversification of investment return sources as provided for in our Statement of Investment Policies and Procedures, which is presented annually to the Board of Directors for their approval

Liquidity risk

Liquidity risk is the risk we will encounter difficulty in meeting obligations associated with financial liabilities.

We mitigate this risk by:

- Investing the majority of our assets in readily marketable instruments – publicly traded equity and fixed income securities – while the remainder of our investments are in real estate and infrastructure investments that provide annual cash flows
- Maintaining a portion of our investments in short-term (less than one year) highly liquid money market securities, which are used to manage our operational requirements
- Maintaining a $150 million unsecured credit facility, which we can utilize to manage our liquidity needs

Credit risk

Credit risk is the risk one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. We are exposed to several types of credit risks:

- Risk that our fixed income investments, consisting primarily of investment grade debt instruments, may become impaired
- Counterparty risk relating to our securities lending program
- Credit loss due to schedule 1 employers not settling their premiums receivable and schedule 2 employers not reimbursing the WSIB for their respective claim costs
- The risk that the Canadian life insurance companies, that enter into annuity agreements with the WSIB to provide for fixed and recurring payments to claimants, may fail to fulfill their obligations
- Concentration risk arises from the exposure of investments in one particular issuer, a group of issuers, a geographic region, or a sector. These groups share similar characteristics such as type of industry, regulatory compliance, and economic and political conditions, which may impact the issuers' ability to meet contractual commitments

We manage our credit risk by:

- Holding a diversified portfolio of debt instruments to mitigate the risks of defaulting fixed-income investments
- Mitigating securities lending counterparty risk through adopting a pre-approved qualified borrower list and through exposure limits; by requiring daily marking-to-market to maintain full

collateralization with an additional margin for safety; and receiving indemnities from financial institutions

- Holding collateral in the form of letters of credit issued by highly rated Canadian financial institutions for schedule 2 employers
- Entering into annuity agreements with various Canadian life insurance companies, which have credit ratings of at least A or better obtained from three reputable rating agencies
- We mitigate the risks of concentrating our investments through limits on exposure to regions and sectors and limits on underlying securities

Market risk

There are three types of market risk we are exposed to including currency risk, interest rate risk and price risk:

- *Currency risk* is the risk of loss due to adverse movements in foreign currency rates as compared with the Canadian dollar
- *Interest rate risk* is the potential for financial loss arising from changes in interest rates
- *Price risk* is the risk the value of a financial instrument will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all instruments traded in the market

We apply various measures to mitigate the risks:

- We use foreign exchange contracts to hedge currency exchange rate risk associated with certain foreign investment holdings. Foreign exchange contracts are agreements to exchange an amount of one currency for another at a future date and at a set price, agreed upon at the contract inception
- We review interest rate risk through periodic asset liability analyses, which assess the impact of different interest rate scenarios on our assets and liabilities over a period of time. Interest rate risk is mitigated primarily through asset allocation, which aims to diversify the WSIB's exposure to the impact of changes in interest rate levels
- We mitigate price risk by diversifying our investment portfolio in accordance with our investment policies

Operating Risks

Strategy

The implementation of the 2012 – 2016 Strategic Plan has been successful to date. Potential risks to its continued success could include factors such as:

- Delays in implementing new technologies
- Unforeseen costs
- Competing stakeholders' priorities
- Interruptions in service delivery

To help mitigate these risks, we have established:

- A business architecture and an enterprise road map to ensure we have the right resources dedicated to executing the plan efficiently and effectively

- A project portfolio governance framework to ensure project-management rigour and management accountability
- Contingency plans to prevent service interruptions to workers and employers during the implementation of new technologies
- Regular engagement with our stakeholders provides for ongoing feedback to keep us informed and provide opportunities for developing solutions

Economic conditions and labour market changes

Given the WSIB's mandate to deliver a no-fault insurance plan, funded predominantly by premium revenues, the WSIB is inherently subject to economic risks, including:

- Low or modest growth in the Province's employment levels, especially in covered industries, may result in not meeting premium revenue targets as well as limiting work transition opportunities
- The growing shift in job market toward non-traditional jobs, such as knowledge work, generally supplied by not compulsorily covered firms may adversely affects premium revenue
- The trend toward casual, part-time and temporary work may result in return to work challenges and, therefore, higher claims costs
- A growing number of older workers in the workforce. If injured, they generally have a longer recovery time and greater challenge with return to work

We mitigate these risks by:

- Conducting economic forecasting to better project the level of future insurable earnings and employment levels within the underlying industry sector
- Continuous monitoring and researching the job market for available, sustainable positions for injured workers ready to transition to the job market

Claims management

Operational performance is reflected in how efficiently and effectively cases are managed and how closely their outcomes meet operational objectives. A number of risks can impact negatively on performance:

- Although outside of our direct control, any rise in the lost-time injury rate will result in an increased volume of incoming claims and increased pressure on front-line resources
- Implementation of transformation initiatives will put strain on organizational capacity as front-line staff adapt to new systems and processes
- Any operating impacts causing delays in timely health care treatment and return to work services would increase the potential for longer claim durations, development of permanent impairments and ultimately increased claims costs

We mitigate these risks as follows:

- Supporting the reduction of workplace injuries and illnesses through our participation on the Chief Prevention Officer's Prevention Council; the provision of data to aid in the identification of priorities, and the provision of funding for the administration of the OHSA and support of the Province's health and safety associations and research

- We actively monitor the volume of work and impact of change on operational capacity, reprioritizing and assigning resources as required to consistently meet performance objectives and standards
- We monitor the quality and timeliness of services through a series of publically available performance measures and take corrective action when targets are not being met

Business interruption

Our stakeholders rely on our ability to operate the system, without interruption. Our continuity of business may be subject to a number of risks:

- Unforeseeable and/or catastrophic events to resources or infrastructure, such as a global flu pandemic or a power failure, may abruptly interrupt business activities and result in losses that could be related to financial assets and key personnel
- If our business continuity plans are inadequate, losses may increase further

We recognize that our business continuity is currently at risk. Our continued use of older system technology and back-up procedures to administer core business activities could result in impacts to our operations and in the potential loss of critical information should those systems fail.

In order to mitigate the risks and maintain the integrity and continuity of our operations in the event of a crisis:

- Continuity plans are in place to ensure the safety of our staff and delivery of essential services. While these plans do not currently provide fully redundant systems, our most critical business information and processes are protected to ensure we can continue to issue benefit payments
- We are in the process of building new systems with robust recovery capabilities, targeted for mid-2014, and our data centre will subsequently be outsourced to a state of the art facility

Our workforce

We are actively engaged in a business transformation undertaking involving our people, work processes and enabling technology. This is part of a long-term business strategy to transform the WSIB into a more effective and efficient organization and to enhance service levels to the Province's workers and employers. We have launched a number of self-serve, eServices and automation improvements in the last two years and more are planned for the future.

A critical measure in our achieving success is dependent on our ability to retain and attract critical resources and scarce skills employees now and in the future. The loss of key employees, or the inability to identify, hire and retain the workforce we require could adversely affect the efficiency of our business operations.

In order to mitigate this risk:

- A Talent Management Strategy led by our Human Resources division with business unit representation is in place to retain, develop and grow existing talent and ingrain leadership skills, career planning and succession planning
- We are also continuing our focused recruiting strategy to aggressively market careers and opportunities. The strategy includes an updated website, focused external recruiting and campaigns, rebranding and targeted advertising

Technology

Given the high volume of transactions processed daily, we are reliant on technology and third parties that provide certain key components of our business infrastructure such as voice and data communications and network access. This presents a number of risks for the WSIB, mainly:

- Failure of third-party systems could interrupt our operations and impact our ability to deliver services and benefits
- A security breach of any of our information systems could put sensitive data at risk or result in liability given that they are used to maintain confidential information regarding our business, injured workers and employer firms

To mitigate these risks:

- We have taken steps to secure our facilities and infrastructure with a series of security protocols for accessing technology
- Through contractual protection, third parties are legally bound to the WSIB's standards and requirements for security of systems, privacy, and strict confidentiality of information
- The WSIB and third party providers have contingency plans for ensuring continued operations should any of their systems fail
- Our staff has been provided requirements to ensure hardware and mobile devices are not compromised in the event they are stolen, lost or accessed without authorization

Regulatory, political and other influences

Our business is subject to changing political and regulatory influences. Any reform or amendment to the WSIA could require the WSIB to make adjustments. For example, changes in regulation can have an impact on the way we deliver services or the services themselves. This may require the dedication of WSIB resources to implement new systems or processes and/or address stakeholder concerns. One example is the implementation of Bill 119 requiring expanded coverage in the construction sector, which required new policies and a system to meet the increased demand for registration and clearance certificates by an implementation date established in law.

We mitigate this risk by:

- Engaging with the Minister to understand the intent of the changes and to consult on the potential impact to outcomes and capacity
- Consulting with our stakeholder community during the planning and implementation of the changes
- Ensuring that any changes to existing programs are developed and implemented in a timely and seamless manner and that they align with our value propositions and organizational capabilities

14. Non-IFRS Financial Measure

A definition of our non-IFRS financial measure

In 2012, we introduced "Core Earnings", a non-IFRS financial measure to help stakeholders better understand our underlying operating performance. This measure is relevant in how we manage our operations and offers a consistent methodology in evaluating our underlying performance. Core Earnings is defined as total comprehensive income excluding the impacts of investment income, changes in actuarial valuation and any items that are considered as material and exceptional in nature. This measure does not have any standard meaning prescribed by IFRS and is not necessarily comparable to similarly titled measures of other companies. Set forth below are the reconciliations of Core Earnings and Comprehensive income, the most directly comparable financial measure calculated and presented in accordance with IFRS:

(in millions of Canadian dollars)	2012	2011
Comprehensive income (loss) for the year	1,121	(1,710)
Less: Net investment income	(1,459)	(296)
Add: Changes in actuarial valuation of benefit liabilities	660	2,040
Add: Changes in actuarial valuation of employee benefit plans	23	-
	345	**34**

15. Related Party Transactions

A discussion of related party transactions and their relationship to our business

The WSIB is a trust agency of the Government of Ontario, responsible for administering the WSIA. As such, the WSIB is considered a government-related entity and is provided partial exemptions under IFRS from its disclosure of transactions with the Government of Ontario and its controlled ministries, agencies, and Crown corporations.

Pursuant to the WSIA, the WSIB is required to reimburse the Government of Ontario for all administrative costs of the OHSA. The WSIB is also required to fund the WSIAT and the offices of each of the Worker and Employer Advisor. These reimbursements and associated amounts charged to employers are determined and approved by the Minister. The WSIB is also committed to providing funding for the Institute for Work and Health and the Safe Workplace Associations, clinics, and training centres. The total funding provided under these legislated obligations and commitments for the year ended December 31, 2012 was $231 million compared to $228 million.

In addition to legislated obligations and workplace health and safety expenses, which the WSIB collectively presents as legislated obligations in the consolidated statements of comprehensive income (loss), the consolidated financial statements include amounts resulting from transactions conducted in the normal course of operations with various controlled ministries, agencies, and Crown corporations of the Government of Ontario.

Included in investments are marketable fixed income securities issued by the Government of Ontario and related entities valued at $960 million compare to $975 million.

16. Forward-looking Statements

Caution regarding forward-looking statements

This MD&A constitutes "forward-looking statements," within the meaning of applicable Canadian securities laws. Forward-looking statements can be identified by the use of words, such as "anticipates," or "believes," "budget," "estimates," "expects," or "is expected," "forecasts," "intends," "plans," "scheduled," or variations of such words and phrases or state that certain actions, events or results "could," "may," "might," "will," "would," or be taken, occur or be achieved. These forward-looking statements relate to, among other things, our future results, levels of activity, performance, goals or achievements or other future events. These forward-looking statements are based on current expectations and various assumptions and analyses made by us in light of our experience and our perceptions of historical trends, current conditions and expected future developments and other factors we believe are appropriate in the circumstances. These forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in our forward-looking statements.

These factors may cause our actual performance and financial results in future periods to differ materially from any estimates or projections of future performance or results expressed or implied by such forward-looking statements. Forward-looking statements do not take into account the effect that transactions or non-recurring or other special items announced or occurring after the statements are made have on our business. For example, they do not include the effect of asset impairments or other changes announced or occurring after the forward-looking statements are made. The financial impact of such transactions and non-recurring and other special items can be complex and necessarily depends on the facts particular to each of them.

We believe the expectations represented by our forward-looking statements are reasonable, yet there can be no assurance that such expectations will prove to be correct. The purpose of the forward-looking statements is to provide the reader with a description of management's expectations regarding our anticipated financial performance and may not be appropriate for other purposes. Furthermore, unless otherwise stated, the forward-looking statements contained in this report are made as of the date of this report and we do not undertake any obligation to update publicly or to revise any of the included forward-looking statements, whether as a result of new information, future events or otherwise unless required by applicable legislation or regulation. The forward-looking statements contained in this document are expressly qualified by this cautionary statement.

RESPONSIBILITY FOR FINANCIAL REPORTING

Role of Management

The accompanying consolidated financial statements are the responsibility of the management of the Workplace Safety and Insurance Board (the "WSIB") and have been prepared in accordance with International Financial Reporting Standards. The consolidated financial statements include amounts based on management's best estimates and judgments.

Management is responsible for the preparation and fair presentation of these consolidated financial statements, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error. The Board of Directors has established an Audit and Finance Committee to ensure management fulfills these responsibilities. The Audit and Finance Committee meets periodically with management, internal auditors, and external auditors to ensure their responsibilities are properly discharged with respect to the application of critical accounting policies, consolidated financial statement presentation, disclosures, and recommendations on internal controls.

Role of the External Actuary

With respect to the preparation of the consolidated financial statements, Eckler Ltd., the external actuary, works with the WSIB actuarial staff to prepare a valuation, including the selection of appropriate assumptions of the WSIB's benefit liabilities at the consolidated statement of financial position date to determine the valuation of benefit liabilities. Additionally, the external actuary provides an opinion to the Board of Directors regarding the appropriateness of the benefit liabilities recorded by management of the WSIB at the date of the consolidated statement of financial position. The work to form that opinion includes an examination of the sufficiency and reliability of data and a review of the valuation processes. The external actuary is responsible for assessing whether the assumptions and methods used for the valuation of the benefit liabilities are in accordance with accepted actuarial practice, applicable legislation, and associated regulations and directives. In performing the valuation of these liabilities, which are by their very nature inherently variable, the external actuary makes assumptions as to future interest and mortality rates, expenses, related trends, and other contingencies, taking into consideration the circumstances of the WSIB. It is certain that the benefit liabilities will not develop exactly as projected and may, in fact, vary significantly from the projections. Further, the projections make no provision for future claim categories not sufficiently recognized in the claims experience and inventories. The external actuary's report outlines the scope of the valuation and his opinion.

Role of the External Auditors

The external auditors, KPMG LLP, working under the direction of the Auditor General of Ontario, have performed an independent and objective audit of the consolidated financial statements of the WSIB in accordance with Canadian generally accepted auditing standards. In carrying out their audit, the external auditors make use of the work of the external actuary and his report on the benefit liabilities of the WSIB. The external auditors have full and unrestricted access to the Board of Directors and the Audit and Finance Committee to discuss audit, financial reporting, and related findings. The external auditors' report outlines the scope of their audit and their opinion on the consolidated financial statements of the WSIB.

I D Marshall

I. David Marshall
President and Chief Executive Officer
April 25, 2013
Toronto, Ontario

Lawrence E. Davis
Chief Financial Officer

INDEPENDENT AUDITORS' REPORT

To the Workplace Safety and Insurance Board,

The Minister of Labour and the Auditor General of Ontario

Pursuant to the *Workplace Safety and Insurance Act, 1997* (Ontario), which provides that the accounts of the Workplace Safety and Insurance Board (the "WSIB") shall be audited by the Auditor General of Ontario or under his direction by an auditor appointed by the Lieutenant Governor in Council for that purpose, we have audited the accompanying consolidated financial statements of the WSIB, which comprise the consolidated statement of financial position as at December 31, 2012, the consolidated statements of comprehensive income (loss), changes in deficiency of assets, and cash flows for the year ended December 31, 2012, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal controls relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audit is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the WSIB as at December 31, 2012, and its consolidated financial performance and its consolidated cash flows for the year ended December 31, 2012 in accordance with International Financial Reporting Standards.

KPMG LLP

Chartered Accountants, Licensed Public Accountants
April 25, 2013
Toronto, Canada

ACTUARIAL OPINION

on the Valuation of the Benefit Liabilities of the Workplace Safety and Insurance Board

as at December 31, 2012

I have completed the actuarial valuation of the benefit liabilities of the Workplace Safety and Insurance Board (WSIB) for its consolidated statements of financial position as at December 31, 2012 (the "valuation date").

In my opinion, the benefit liabilities of $27,050 million make reasonable provision for future payments for loss of earnings, other short and long term disability, health care, survivor and retirement income benefits with respect to claims which occurred on or before the valuation date, and for occupational disease claims expected to arise after the valuation date as a result of exposures incurred in the workplace on or before the valuation date in respect of occupational diseases with a long latency period that are recognized by the WSIB. This amount provides for future claim administration costs, but does not include a provision for claims related to workers of Schedule 2 employers.

The valuation was based on the provisions of the *Workplace Safety and Insurance Act (Ontario)*, 1997 and on the WSIB's policies and administrative practices in effect at the time of the valuation.

The data on which the valuation is based were provided by the WSIB; I applied such checks of reasonableness of the data as I considered appropriate, and have concluded that the data are sufficiently reliable to permit a realistic valuation of the liabilities and are consistent with WSIB's consolidated financial statements. In my opinion, the data on which the valuation is based are sufficient and reliable for the purpose of the valuation.

An extensive review of the actuarial assumptions and methods used to determine the benefit liabilities has been done in 2012 and resulted in major changes, including revised assumptions to value long latency occupational disease claims, the revision of the nominal rate of return assumption, new methods and assumptions used for valuing the loss of earnings and health care benefits, a revised basis to determine future claim administration costs and several refinements to the methodology for determining outstanding claims liabilities. The impact of the changes in actuarial assumptions and methods on the benefit liabilities is disclosed in note 18 to the consolidated financial statements.

The economic assumptions adopted for purposes of computing the liabilities are consistent with the WSIB's strategic plan and investment policies. For this valuation, an annual nominal rate of return of 5.50% for 2013 to 2017 (2015 for the previous valuation) and 6% thereafter was used to discount expected payments. Other economic assumptions underlying the calculations include annual changes in the Consumer Price Index (CPI) of 2.50%, amounts subject to partial indexing to increase at 0.5% annually, health care costs and wage annual escalation rates of 4.50% (6.50% for the previous valuation) and 3.50% respectively. In my opinion, the assumptions are appropriate for the purpose of the valuation.

The methods and assumptions employed in the valuation provide for the projections of future claim payments and awards using factors developed from the WSIB's claims experience, mortality and other assumptions. In my opinion, the methods employed in the valuation are appropriate for the purpose of the valuation.

Details of the data, actuarial assumptions, valuation methods and analysis of results are set out in my actuarial report as at the valuation date, of which this statement of opinion forms part.

In my opinion, the amount of the benefit liabilities makes appropriate provision for all personal injury compensation obligations and the consolidated financial statements fairly represent the results of the valuation. This report has been prepared, and my opinions given, in accordance with accepted actuarial practice in Canada.

Richard Larouche, FCIA, FSA
Actuary
Eckler Ltd.

April 25, 2013

WORKPLACE SAFETY AND INSURANCE BOARD

Consolidated Statements of Financial Position

As at December 31

(in millions of Canadian dollars)

	Note	2012	2011
Assets			
Cash and cash equivalents	8	1,331	983
Receivables		1,009	1,041
Investment receivables		159	115
Investments	9	15,100	13,648
Investments under securities lending program	9	592	523
Investments in associates and jointly controlled entities	10	386	375
Investment property	11	643	488
Property and equipment	13	147	159
Intangible assets	14	17	50
Total assets		**19,384**	**17,382**
Liabilities			
Payables and accruals		1,038	1,077
Investment payables		38	23
Long-term debt	15	169	143
Loss of Retirement Income Fund liability	16	1,377	1,254
Employee benefit plans	17	908	812
Benefit liabilities	18	27,050	26,390
Total liabilities		**30,580**	**29,699**
Deficiency of assets			
Unfunded liability attributable to WSIB stakeholders		(13,299)	(14,222)
Non-controlling interests		2,103	1,905
Total deficiency of assets		**(11,196)**	**(12,317)**
Total liabilities and deficiency of assets		**19,384**	**17,382**

Commitments and contingent liabilities (note 19)

Approved by the Board of Directors

Elizabeth Witmer
Chair

Lea M. Ray
Audit and Finance Committee (Chair)

The accompanying notes form an integral part of these consolidated financial statements.

WORKPLACE SAFETY AND INSURANCE BOARD

Consolidated Statements of Comprehensive Income (Loss)

For the years ended December 31
(in millions of Canadian dollars)

	Note	2012	2011
Revenues			
Premiums	6	4,136	3,901
Net employer incentive programs		(75)	(25)
		4,061	3,876
Net investment income			
Investment income	9	1,512	361
Investment expenses	9	(111)	(99)
Income from associates and jointly controlled entities	10	58	34
		1,459	296
		5,520	**4,172**
Expenses			
Benefit costs			
Benefit payments	18	2,664	2,850
Claim administration costs	7	449	370
Change in actuarial valuation of benefit liabilities	18	660	2,040
		3,773	5,260
Loss of Retirement Income Fund contributions	16	67	70
Administration and other expenses	7	328	324
Legislated obligations and commitments	19	231	228
		4,399	**5,882**
Comprehensive income (loss)		**1,121**	**(1,710)**
Comprehensive income (loss) attributable to:			
WSIB stakeholders		923	(1,763)
Non-controlling interests		198	53
		1,121	**(1,710)**

The accompanying notes form an integral part of these consolidated financial statements.

WORKPLACE SAFETY AND INSURANCE BOARD

Consolidated Statements of Changes in Deficiency of Assets
For the years ended December 31
(in millions of Canadian dollars)

	Deficiency of Assets		
	Unfunded liability attributable to WSIB stakeholders	**Non-controlling interests**	**Total**
Balance at December 31, 2010	(12,459)	1,863	(10,596)
Comprehensive income (loss)	(1,763)	53	(1,710)
Change in ownership share in investments	-	(11)	(11)
Balance at December 31, 2011	(14,222)	1,905	(12,317)
Comprehensive income	923	198	1,121
Change in ownership share in investments	-	-	-
Balance at December 31, 2012	**(13,299)**	**2,103**	**(11,196)**

The accompanying notes form an integral part of these consolidated financial statements.

WORKPLACE SAFETY AND INSURANCE BOARD

Consolidated Statements of Cash Flows

For the years ended December 31

(in millions of Canadian dollars)

	2012	2011
Operating activities:		
Comprehensive income (loss)	1,121	(1,710)
Adjustments:		
Amortization of net discounts on investments	11	12
Amortization of property, equipment and intangible assets	48	27
Changes in fair value of investments	(1,091)	167
Changes in fair value of investment property	(24)	(48)
Dividend income from equity securities	(244)	(233)
Impairment of intangible assets	5	51
Income from associates and jointly controlled entities	(58)	(34)
Interest income	(221)	(244)
Interest expense	13	14
	(440)	(1,998)
Change in non-cash balances related to operations:		
Receivables	37	(162)
Payables and accruals	(39)	125
Loss of Retirement Income Fund liability	123	61
Employee benefit plans	95	25
Benefit liabilities	660	2,040
	876	2,089
Net cash provided by operating activities	**436**	**91**
Investing activities:		
Dividends received from equity securities, associates and jointly controlled entities	256	232
Interest received	229	243
Additions of property, equipment and intangible assets	(7)	(21)
Purchase of investments	(24,998)	(19,293)
Sale and maturities of investments	24,519	18,793
Additions of investment property	(36)	(7)
Acquisition of associates and jointly controlled entities	(35)	(11)
Disposition of associates and jointly controlled entities	62	6
Acquisition of subsidiaries	(62)	(75)
Disposition of subsidiaries	-	30
Net cash required by investing activities	**(72)**	**(103)**
Financing activities:		
Disposition of non-controlling interests	89	69
Distributions paid by subsidiaries to non-controlling interests	(93)	(63)
Repayment on mortgages and finance leases	-	(6)
Interest paid on mortgages and finance leases	(12)	(14)
Net cash required by financing activities	**(16)**	**(14)**
Increase (decrease) in cash and cash equivalents	**348**	**(26)**
Cash and cash equivalents, beginning of year	983	1,009
Cash and cash equivalents, end of year	**1,331**	**983**

The accompanying notes form an integral part of these consolidated financial statements.

WORKPLACE SAFETY AND INSURANCE BOARD

Notes to Consolidated Financial Statements

December 31, 2012

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WORKPLACE SAFETY AND INSURANCE BOARD

Notes to Consolidated Financial Statements

December 31, 2012

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1. Nature of Operations

The Workplace Safety and Insurance Board (the "WSIB") is a statutory corporation created by an Act of the Ontario Legislature in 1914 and domiciled in the Province of Ontario, Canada (the "Province"). As a trust agency of the Government of Ontario, the WSIB is responsible for administering the *Workplace Safety and Insurance Act, 1997* (Ontario) (the "WSIA"), which establishes a no-fault insurance scheme that provides benefits to workers who experience workplace injuries or illnesses.

The WSIB promotes workplace health and safety in the Province and provides a workplace compensation system for Ontario based employers and workers. The WSIB is funded entirely by employer premiums and does not receive any government funding or assistance. Revenues are also earned from a diversified investment portfolio held to meet future obligations on existing claims.

The WSIB's registered office is 200 Front Street West, Toronto, Ontario M5V 3J1.

2. Statement of Compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS").

The consolidated financial statements as at and for the year ended December 31, 2012 were authorized for issuance by the WSIB's Board of Directors on April 25, 2013.

3. Summary of Significant Accounting Policies

Basis of presentation

The consolidated financial statements have been prepared on the historical cost basis except for the following items:

i) financial instruments classified as at fair value through profit or loss ("FVTPL"), which are measured at fair value;

ii) investment properties, which are measured at fair value;

iii) Loss of Retirement Income Fund liability, which is measured at fair value;

iv) the defined benefit pension and other employee benefit plan liabilities, which are measured as the present value of the defined benefit obligations less the fair value of plan assets; and

v) benefit liabilities are measured as present value of future benefit payments which depend on actuarial assumptions, including economic assumptions, which are based on past experience modified for current trends and expected development.

Basis of consolidation

a) Subsidiaries

Subsidiaries are entities controlled by the WSIB.

The financial statements of subsidiaries are included in the WSIB's consolidated financial statements from the date control commences until the date control ceases. Where necessary, adjustments are made to the financial statements of subsidiaries to reflect accounting policies consistent with those of the WSIB. All intercompany transactions and balances are eliminated.

The majority of the WSIB's investment portfolio is held in subsidiaries in which the WSIB Employees' Pension Plan is a non-controlling interest. These include the following subsidiaries and trusts:

i) Absolute Return (2012) Pooled Fund Trust;

ii) Diversified Beta Strategies Limited;

iii) Diversified Markets (2009) Pooled Fund Trust;

iv) WSIB Investments (Fixed Income) Pooled Fund Trust;

v) WSIB Investments (Infrastructure) Pooled Fund Trust;

vi) WSIB Investments (Public Equities) Pooled Fund Trust;

vii) WSIB Investments (Realty) Limited; and

viii) WSIB Investments (Total Return) Pooled Fund Trust.

b) Non-controlling interests

Non-controlling interests represent the WSIB Employees' Pension Plan and other investors' proportionate interest of the net assets and comprehensive income of subsidiaries in which the WSIB directly or indirectly owns less than 100%. Comprehensive income and the surplus or deficiency of assets related to these subsidiaries are allocated to WSIB stakeholders and non-controlling interests.

c) Investments in associates and jointly controlled entities

Associates are those entities over which the WSIB has significant influence, but not control or exercise joint control, over the financial and operating policies. Generally, the WSIB is considered to have significant influence when it holds 20% or more of voting power of an entity, but does not control or jointly control that entity. Jointly controlled entities are entities over which the WSIB has joint control; joint control exists when the strategic, financial and operating decisions related to the entity require unanimous consent of parties sharing control.

Investments in associates and jointly controlled entities are accounted for using the equity method. Under the equity method, investments are initially recognized at cost and adjusted for the WSIB's proportionate share of the associates' or jointly controlled entities' net income or loss. The consolidated financial statements include the WSIB's share of the net income and loss and any equity movements of investments in associates and jointly controlled entities from the date significant influence or joint control commences until the date significant influence or joint control ceases. When the WSIB's share of losses exceeds its interest in an associate or jointly controlled entity, the carrying amount of that interest, including any long-term investments, is reduced to nil, and the recognition of further losses is discontinued except to the extent the WSIB has an obligation to make payments, or has made payments, on behalf of the investee.

d) Jointly controlled operations

A jointly controlled operation is a joint venture carried on by each owner using its own assets in-pursuit of the joint operations. The consolidated financial statements include the assets the WSIB controls and the liabilities that it incurs in the course of pursuing the joint operation and the expenses that the WSIB incurs and its share of the income that it earns from the joint operation.

e) Jointly controlled assets

Jointly controlled assets are investments in economic activities over which the WSIB has joint control. Joint control exists when the strategic, financial and operating decisions related to the assets require unanimous consent of parties sharing control.

These consolidated financial statements include the WSIB's share of the jointly controlled assets and its share of the liabilities incurred jointly with the other investors. The consolidated financial statements also include the WSIB's share of the revenues generated and expenses incurred by the economic activity related to the jointly controlled assets from the date joint control commences until the date joint control ceases.

Business combinations

At times, the WSIB's investment properties are acquired through business combinations. Acquisitions of businesses are accounted for using the acquisition method. The acquiree's identifiable assets and liabilities are recognized at their fair values at the date of acquisition. The transaction costs associated with business combinations are expensed as incurred.

Foreign currency

The WSIB's functional and presentation currency is the Canadian dollar. Except as otherwise indicated, all financial information presented in Canadian dollars has been rounded to the nearest million. The Canadian dollar is also the functional currency of each of the WSIB's subsidiaries, associates and joint ventures.

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the date of the transaction. Monetary assets and liabilities denominated in a foreign currency are translated at the period-end rates of exchange. Non-monetary assets and liabilities that are measured at fair value are also translated at the period-end rates of exchange. Foreign exchange gains and losses are recognized in the consolidated statements of comprehensive income (loss).

Financial instruments

The WSIB recognizes financial assets and financial liabilities when it becomes a party to a contract. Financial assets and liabilities are offset and the net amount presented in the consolidated statements of financial position only when the WSIB has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

Financial assets and financial liabilities, with the exception of financial assets classified as at FVTPL, are measured at fair value plus transaction costs on initial recognition. Financial assets at FVTPL are measured at fair value on initial recognition and transaction costs are expensed when incurred.

Measurement in subsequent periods depends on the classification of the financial instrument. The WSIB's financial assets and financial liabilities are classified as follows:

Financial asset or financial liability	Classification
Cash and cash equivalents	Fair value through profit and loss (a)
Receivables	Loans and receivables (b)
Investment receivables	Loans and receivables (b)
Investments	Fair value through profit and loss (a)
Investments under securities lending program	Fair value through profit and loss (a)
Payables and accruals	Other financial liabilities (c)
Investment payables	Other financial liabilities (c)
Long-term debt	Other financial liabilities (c)

a) Financial assets at FVTPL

Financial assets are classified as FVTPL when acquired principally for the purpose of trading, if so designated by management, or if they are derivative assets. Financial assets classified as FVTPL are measured at fair value, with changes recognized in the consolidated statements of comprehensive income (loss).

Investments and investments under the WSIB's securities lending program are managed based on their fair value in accordance with the WSIB's documented risk management or investment strategy.

b) Loans and receivables

Loans and receivables are non-derivative financial assets that have fixed or determinable payments and are not quoted in an active market. Subsequent to initial recognition, loans and receivables are carried at amortized cost using the effective interest method. Loans and receivables are considered for impairment when they are past due or when other objective evidence is received that a specific counterparty will default.

c) Other financial liabilities

Other financial liabilities are financial liabilities that are not derivative liabilities or classified as FVTPL. Subsequent to initial recognition, other financial liabilities are carried at amortized cost using the effective interest method.

The effective interest method is a method of calculating the amortized cost of a financial instrument and allocating interest over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash flows (including all transaction costs and other premiums or discounts) through the expected life of the financial instrument to the net carrying amount on initial recognition.

Interest income is recognized when it is earned and dividend income is recognized when the WSIB's right to receive payment has been established. Interest income and dividend income are included in investment income on the consolidated statements of comprehensive income (loss).

Investment property

Investment property is property held either to earn rental income or for capital appreciation, or both. Investment properties acquired through a business combination are recognized at fair value and the related transaction costs are expensed as incurred. Investment properties acquired through an asset purchase are recognized at cost, which includes transaction costs. Subsequent to initial recognition, investment properties are measured at fair value with changes in fair value recognized as investment income during the period in which they arise.

Fair values of investment properties are primarily based on discounted expected future cash flows of each property, using a discount and terminal capitalization rate reflective of the characteristics, location and market of each property. The future cash flows of each property are based on estimates of future cash flows from current and future leases.

Property and equipment

Property and equipment are measured at cost less accumulated amortization and any accumulated impairment losses. When significant components of an item of property and equipment have different useful lives, they are accounted for as separate items.

Property and equipment are amortized on a straight-line basis over their estimated useful lives as follows:

Land	Not amortized
Buildings	
Primary structure	60 years
Components with different useful lives	10 - 30 years
Leasehold improvements	Lesser of the lease term or 10 years
Office and computer equipment	3 - 5 years

Intangible assets

Intangible assets, which include internally developed and acquired software, are measured at cost less accumulated amortization and any accumulated impairment losses. Intangible assets are amortized on a straight-line basis over their estimated useful lives of three to five years.

Development costs associated with internally developed computer software are recognized as an intangible asset when certain criteria are met. The criteria to capitalize development costs include the WSIB's intention and ability to complete the development of the software from which it is probable the WSIB will generate future economic benefits.

Leases

Leases are classified as either finance or operating leases. Finance leases are those leases that substantially transfer the benefits and risks of ownership of an asset to the lessee.

a) Leases where the WSIB is the lessee

Assets held under finance leases are recognized as assets and included in property and equipment. At the inception of the lease, the asset is measured at the lower of the present value of the minimum lease payments and the fair value of the leased asset. A corresponding liability is recognized as a finance lease obligation. Lease payments are apportioned between interest expense and a reduction of the lease obligation to achieve a constant rate of interest on the remaining liability.

Total payments under operating leases are recognized as an expense in administration and other expenses on a straight-line basis over the term of the lease. As an exception, operating leases for investment property are accounted for as a finance lease. Investment properties held under operating leases are recognized as an asset and measured at fair value.

b) Leases where the WSIB is the lessor

All leases under which the WSIB is the lessor are leases of its investment property and have been determined to be operating leases. Rental revenue from operating leases is recognized in investment income on a straight-line basis over the term of the lease.

Impairment of non-financial assets

At each reporting date, the WSIB's property and equipment and intangible assets are reviewed to determine whether there is an indication those assets are impaired. If such an indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment, if any. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount and the impairment loss is recognized in the consolidated statements of comprehensive income (loss). The recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted at a rate that reflects current market assessments of the time value of money and the risks specific to the asset.

For the purposes of assessing for indications of impairment and impairment testing, assets that do not have largely independent cash inflows are grouped into cash-generating units. Cash-generating units are the smallest identifiable groups of assets with independent cash inflows.

Premium revenues

Premium revenues are comprised of premiums from Schedule 1 employers and administration fees from Schedule 2 employers.

a) Schedule 1 employer premiums

Schedule 1 employers are those employers for which the WSIB is liable to pay benefit compensation for workers' claims. Schedule 1 employers are required by legislation to pay premiums to the WSIB, which are recognized over the period that coverage is provided.

b) Schedule 2 employer administration fees

Schedule 2 employers are employers that self-insure the provisions of benefits under the WSIA. Schedule 2 employers are liable to pay all benefit compensation and administration costs for their workers' claims.

The WSIB administers the payment of the benefits for workers of Schedule 2 employers and recovers the cost of these benefits plus administration fees from the employers. The administration fees are recognized as the services are provided. The benefits paid on behalf of Schedule 2 employers and the amounts collected to recover the benefits paid are not included in the WSIB's revenues or expenses.

Loss of Retirement Income Fund liability

The Loss of Retirement Income Fund liability represents an obligation for payments of retirement benefits to certain workers. The WSIB makes contributions to the Loss of Retirement Income Fund for injured workers who have received future economic loss benefits or loss of earnings benefits for twelve consecutive months. The WSIB's contributions, and any voluntary contributions from injured workers, are segregated within the WSIB's investment portfolio as the Loss of Retirement Income Fund.

The WSIB's obligation to injured workers is to provide retirement benefits equal to the total contributions plus income earned on those contributions. As such, the Loss of Retirement Income Fund liability is measured at the fair value of the assets in the Loss of Retirement Income Fund. The WSIB's contributions to the Loss of Retirement Income Fund are recognized as the Loss of Retirement Income Fund contributions expense.

Benefit liabilities

Benefit liabilities represent the actuarially determined present value of the estimated future payments for reported and unreported claims incurred on or prior to the reporting date, and for occupational disease claims expected to arise in the future as a result of exposures incurred in the workplace on or prior to the reporting date in respect of occupational diseases currently recognized by the WSIB. These claims are related to workers of Schedule 1 employers and future payments are for loss of earnings, labour market re-entry costs, short and long-term disability, health care, survivor benefits, retirement income benefits, and claim administration costs. The benefit liabilities are determined by estimating future benefit payments in accordance with the adjudication practices and relevant legislation in effect at the end of the reporting period. Changes in the benefit liabilities are recognized in benefit costs in the consolidated statements of comprehensive income (loss).

Benefit liabilities do not include any amounts for claims related to workers of Schedule 2 employers; these claims are ultimately paid by Schedule 2 employers who are self-insured.

Employee future benefits

The WSIB maintains two employee defined benefit pension plans, and a defined benefit plan that provides other long-term employee benefits including post-employment dental, extended health and life insurance benefits.

The cost of the defined benefit plans is actuarially determined using the projected unit credit method and management's best estimate of expected plan investment performance, compensation level increases and retirement ages of workers. The obligations for these plans are measured individually as the present value of the benefit obligation less the fair value of plan assets and are included in the employee benefit plans liability.

Actuarial gains and losses are recognized in the consolidated statements of comprehensive income (loss) based on the corridor method. Under the corridor method, net actuarial gains and losses are amortized when the amount exceeds 10% of the greater of the accrued benefit obligation at the beginning of the year and the fair value of plan assets at the beginning of the year. The net actuarial gains or losses in excess of this threshold are amortized on a straight-line basis over the average remaining service period of active workers expected to receive benefits under the plan.

Termination benefits

Termination benefits refer to benefits payable to employees as a result of voluntary or involuntary termination of employment. The cost of termination benefits is recognized in administration and other expenses when the WSIB is committed to terminate the employment of an employee or group of employees or to provide benefits resulting from an offer of voluntary exit packages.

4. Critical Accounting Estimates and Judgments

The preparation of these consolidated financial statements requires the WSIB to apply judgment when making estimates and assumptions that affect the reported amounts recognized in the consolidated financial statements. These estimates have a direct effect on the measurement of transactions and balances recognized in the consolidated financial statements, and actual results could differ from those estimates. Estimates are reviewed on an ongoing basis, with any related revisions recorded in the period in which they are adjusted.

In addition, the WSIB has made judgments, aside from those that involve estimates, in the process of applying its accounting policies. These judgments can affect the amounts recognized in the consolidated financial statements.

Benefit liabilities (note 18)

Benefit liabilities represent the actuarially determined present value of future payments for reported and unreported claims related to workers of Schedule 1 employers incurred on or prior to the reporting date, and for occupational disease claims expected to arise in the future as a result of exposures incurred in the workplace on or prior to the reporting date in respect of occupational diseases currently recognized by the WSIB. The measurement of benefit liabilities requires the actuary to make estimates and assumptions for a number of factors, including those for claim duration, mortality rates, wage escalation, expected return on investments, general inflation and discount rates. Changes in these estimates and assumptions could have an impact on the measurement of benefit liabilities and benefit costs.

Employee benefit plans (note 17)

The costs and liabilities associated with defined benefit pension plans and other long-term employee benefit plans are determined in accordance with actuarial valuations. The actuarial valuations rely on estimates and assumptions including those for wage escalation, expected return on plan assets, health care and dental cost inflation, retirement ages, life expectancies and discount rates. Changes in these estimates could have an impact on the employee benefit plans' liability and employee benefit costs.

Fair value measurement of financial instruments (note 20)

Where possible, the fair value of publicly traded financial instruments is based on quoted market prices. The fair value for a substantial majority of financial instruments is based on quoted market prices or valuation models that use observable market inputs such as interest rate yield curves. Valuation models incorporate prevailing market rates and may require estimates for economic risks and projected cash flows. Note 20 provides the estimated fair values of financial instruments categorized by the nature of the inputs used in the valuation techniques.

Fair value measurement of investment properties (note 11)

The WSIB's investment properties are owned indirectly through subsidiaries or jointly controlled entities. Investment properties are re-measured to fair value at each reporting date, estimated based on annual valuations performed by external and internal qualified appraisers. On a quarterly basis, the fair value of investment properties is updated based on internal and external valuation models incorporating available market evidence. When estimating the fair value of investment properties, estimates and assumptions are made that have a significant effect on the reported value of investment properties. Estimates and assumptions used in determining the fair value of the investment properties include discount and terminal capitalization rates, inflation rates, vacancy rates, and future net cash flows of the property.

5. Future Changes in Accounting Standards

The following new or amended accounting standards have been issued by the International Accounting Standards Board ("IASB"), but are not yet effective and have not been applied.

International Accounting Standard 19 *Employee Benefits* ("IAS 19")

Amendments to IAS 19 were issued in June 2011. The amended standard is effective for annual periods beginning on or after January 1, 2013.

The amended standard eliminates the corridor approach to recognizing actuarial gains and losses, and requires the effect of all remeasurements be recognized in other comprehensive income. The amendments also replace the concept of return on plan assets and interest cost with a net interest cost that is calculated by multiplying the discount rate by the net liability. Changes in the defined benefit obligations and in the fair value of plan assets are segmented into three components: service costs; net interest on the net defined benefit liabilities; and remeasurements of the net defined benefit liabilities. The amendments also enhance disclosure about the risks arising from defined employee benefit plans.

The amended standard will have the following effect on the 2012 comparative information in the WSIB's consolidated financial statements when it is applied retrospectively by the WSIB beginning January 1, 2013:

	Increase	
	December 31 2012	**January 1 2012**
Employee benefit plan liability	762	585
Unfunded liability attributable to WSIB stakeholders	762	585

	Increase (Decrease) December 31, 2012
Employee benefit expense	14
Remeasurements of defined benefit plans	163
Comprehensive income	**(177)**

IFRS 10 *Consolidated Financial Statements* ("IFRS 10")

IFRS 10 was issued in May 2011 and is effective for annual periods beginning on or after January 1, 2013.

IFRS 10 requires an entity to consolidate an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Under existing IAS 27 *Consolidated and Separate Financial Statements* ("IAS 27"), consolidation is required when an entity has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. IFRS 10 will replace Standing Interpretations Committee 12 *Consolidation – Special Purpose Entities* ("SIC 12") and parts of IAS 27.

The WSIB does not expect that IFRS 10 will have a significant effect on its consolidated financial statements.

IFRS 11 *Joint Arrangements* ("IFRS 11")

IFRS 11 was issued in May 2011 and is effective for annual periods beginning on or after January 1, 2013.

IFRS 11 requires interests in joint arrangements to be classified as a joint venture or joint operation. A joint arrangement is an arrangement in which two or more parties have joint control. Joint ventures will be accounted for using the equity method of accounting whereas a party with joint control of a joint operation will recognize its share of the assets, liabilities, revenues and expenses of the joint operation. Under existing IFRS, entities have the choice to proportionately consolidate or equity account for interests in certain joint ventures. IFRS 11 will replace IAS 31 *Interests in Joint Ventures* and SIC 13 *Jointly Controlled Entities – Non-monetary Contributions by Venturers*.

The WSIB does not expect that IFRS 11 will have a significant effect on its consolidated financial statements.

IFRS 12 *Disclosures of Interest in Other Entities* ("IFRS 12")

IFRS 12 was issued in May 2011, and is effective for annual periods beginning on or after January 1, 2013.

IFRS 12 establishes disclosure requirements for interests in other entities, such as subsidiaries, joint arrangements, associates and unconsolidated structured entities. This IFRS standard carries forward existing disclosures and also introduces significant additional disclosure requirements that address the nature of, and risks associated with, an entity's interests in other entities. The standard also requires enhanced disclosures of how control was determined and any restrictions that might exist on consolidated assets and liabilities within the consolidated financial statements.

Financial statement note disclosures will be amended to reflect the requirements of IFRS 12; however the WSIB does not expect a significant effect on its consolidated financial statements.

IFRS 13 *Fair Value Measurement* ("IFRS 13")

IFRS 13 was issued in May 2011, and is effective for annual periods beginning on or after January 1, 2013.

IFRS 13 defines fair value and sets out a single IFRS framework for measuring fair value that is applied in most circumstances where IFRS requires or permits measurements or disclosures of fair value. The new standard clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants, at the measurement date. IFRS 13 also establishes disclosures about fair value measurement.

The WSIB does not expect that IFRS 13 will have a significant effect on its consolidated financial statements.

IAS 1 *Presentation of Financial Statements* ("IAS 1")

Amendments to IAS 1 were issued in June 2011. The amended standard is effective for annual periods beginning on or after July 1, 2012. The amendments to IAS 1 will require entities to group items presented in other comprehensive income based on an assessment of whether such items may, or may not, be reclassified to earnings at a subsequent date.

The WSIB does not expect these amendments will have a significant effect on its consolidated financial statements.

IAS 32 *Financial Instruments Presentation* ("IAS 32") **and IFRS 7 *Financial Instruments Disclosures*** ("IFRS 7")

Amendments to IAS 32 and IFRS 7 were issued in December 2011. The amended IFRS 7 is effective for annual periods beginning on or after January 1, 2013 with earlier application permitted. The amended IAS 32 is effective for annual periods beginning on or after January 1, 2014.

The amendments to IAS 32 clarify the existing requirements for offsetting financial instruments. The amendments to IFRS 7 include new disclosure requirements intended to facilitate comparisons to financial statements prepared under United States GAAP.

The WSIB does not expect these amendments will have a significant effect on its consolidated financial statements.

IFRS 9 *Financial Instruments* ("IFRS 9")

IFRS 9 was issued in November 2009, and subsequently revised in October 2010 as part of the IASB's ongoing project to replace IAS 39 *Financial Instruments: Recognition and Measurement* ("IAS 39"). IFRS 9 is effective for annual periods beginning on or after January 1, 2015.

IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or at fair value, replacing the multiple classifications in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. The standard also includes guidance on the classification and measurement of financial liabilities, which largely carried forward the existing requirements in IAS 39.

The IASB has proposed further amendments including a third category "fair value through other comprehensive income" for certain investments in debt securities and expects to include these amendments in IFRS 9 prior to 2015.

The WSIB has not completed its assessment of the effect IFRS 9 may have on its consolidated financial statements.

Exposure drafts

a) Insurance contracts

In July 2010, the IASB issued an exposure draft containing proposals for significant changes to the existing recognition, measurement, presentation, and disclosure requirements for insurance contracts. The IASB continues to work on these proposals with the objective of finalizing a new standard to replace IFRS 4 *Insurance Contracts*. This is an important standard that is expected to have a significant effect on the WSIB's consolidated financial statements, primarily as it relates to the measurement of benefit liabilities. The new standard is not finalized and will not have an effect on the consolidated financial statements until it is issued and effective. The date the new standard will be issued and the date the new standard will be effective are uncertain.

b) Other

The IASB regularly issues exposure drafts with proposals for new standards or amendments to existing standards. The WSIB's consolidated financial statements do not include disclosure of all exposure drafts issued by the IASB.

6. Revenues

	2012	2011
Premiums		
Schedule 1 employer premiums		
Gross Schedule 1 premiums	4,024	3,794
Other income	8	2
Interest and penalties	38	43
	4,070	3,839
Net employer incentive programs	(75)	(25)
	3,995	3,814
Schedule 2 employer administration fees	66	62
	4,061	**3,876**
Net investment income (note 9)	**1,459**	**296**
	5,520	**4,172**

Premiums

Schedule 1 employers are those employers for which the WSIB is liable to pay benefit compensation for workers' claims. Premiums are primarily derived from total insurable payrolls of Schedule 1 employers and are recognized over the period coverage is provided.

Premiums also include:

i) interest and penalties, which are recognized when assessed; and

ii) employer incentive programs that adjust employer premium rates based on an employer's health and safety experience and are recognized when determined.

Schedule 2 employers are employers that self-insure the provision of benefits under the WSIA. The WSIB administers the payment of the benefits for workers of Schedule 2 employers. The Schedule 2 employer administration fees represent revenues received for the administration of Schedule 2 benefit payments.

Net investment income

Details of net investment income are provided in note 9.

7. Administration and Other Expenses

Administration and other expenses for the year ended December 31 are comprised of the following:

	2012	**2011**
Salaries and short-term benefits	374	374
Long-term benefit plans	169	90
Facilities	44	44
Amortization	43	22
Equipment and maintenance	36	32
Bad debts	25	38
New systems development and integration	22	6
Termination benefits	22	-
Communications	10	10
Impairment of intangible assets	5	51
Other	27	27
	777	694
Claim administration costs allocated to benefit costs (note 18)	(449)	(370)
	328	**324**

Claim administration costs allocated to benefit costs represent management's estimate of the administration and other expenses incurred to adjudicate and administer claims, and to process claim payments. These costs are allocated to benefit costs. Note 18 provides further details on benefit liabilities and benefit costs.

8. Cash and Cash Equivalents

Highly liquid investments with a maturity of three months or less from the date of purchase are considered to be cash equivalents. Cash and cash equivalents are comprised of following:

	2012	2011
Cash	631	467
Short-term money market securities	700	516
	1,331	**983**

For management purposes, cash and cash equivalents are held as follows:

	2012	2011
For operating purposes	439	328
Held in investment portfolio (note 9)	737	502
Held in Loss of Retirement Income Fund (note 16)	155	153
	1,331	**983**

9. Investments and Net Investment Income

Investment portfolio

The Board of Directors of the WSIB has established a Statement of Investment Policies and Procedures ("SIPP"), which establishes the policies governing the WSIB's investment portfolio. The SIPP is reviewed by the Board of Directors on no less than an annual basis and is amended as required.

The SIPP requires that the WSIB's investment portfolio be diversified across certain asset classes and investment strategies. Accordingly, the investment portfolio is currently diversified among five primary asset classes as follows:

Fixed income	Bonds, debentures, loans, notes, mortgages and other fixed income investments.
Public equities	Investment in the equity, or securities convertible into equity, of public corporations.
Multi-asset strategies	Investments that seek to provide a diversified source of total return generated from the broad market and from active management. Investments within multi-asset strategies may include derivatives, commodities, currencies, hedge funds, equities and fixed income investments.
Real estate	Real estate debentures and properties in Canada diversified across office, retail, industrial, and mixed use assets.
Infrastructure	Investments in transportation, utilities, energy and health-care facilities.

The following provides a summary of the nature of the investments in the investment portfolio by asset class:

	Fixed income	Public equities	Multi-asset strategies	Real estate	Infra-structure	Other	2012	2011
Equity securities	-	7,112	595	-	-	-	7,707	6,875
Fixed income securities	4,535	-	523	-	-	-	5,058	5,337
Hedge funds	-	-	1,036	-	-	-	1,036	707
Real estate debentures	-	-	-	356	-	-	356	337
Commingled investment funds	-	-	1,301	-	213	-	1,514	771
Annuities	-	-	-	-	-	71	71	74
Foreign exchange contracts	-	(20)	(26)	-	(2)	-	(48)	71
Futures	-	-	(2)	-	-	-	(2)	(1)
Investments and investments under securities lending program	4,535	7,092	3,427	356	211	71	15,692	14,171
Investment in associates and jointly controlled entities	-	-	-	352	34	-	386	375
Investment property (note 11)	-	-	-	643	-	-	643	488
Investment receivables	37	34	85	1	2	-	159	115
Investment payables	(4)	(27)	(2)	-	(5)	-	(38)	(23)
Cash and cash equivalents (note 8)	3	399	271	35	29	-	737	502
Total investment portfolio	**4,571**	**7,498**	**3,781**	**1,387**	**271**	**71**	**17,579**	**15,628**
December 31, 2012 - % of total	26.0%	42.7%	21.5%	7.9%	1.5%	0.4%		
December 31, 2011 - % of total	32.4%	42.9%	15.4%	7.7%	1.1%	0.5%		

Holdings in the WSIB's investment portfolio are held directly or held indirectly through investments in subsidiaries, associates, jointly controlled entities or jointly controlled assets.

The WSIB's investment portfolio is presented on the consolidated statements of financial position within the following line items:

	2012	2011
Investments	15,100	13,648
Investments under securities lending program (a)	592	523
Investment receivables	159	115
Investment payables	(38)	(23)
Investments in associates and jointly controlled entities (note 10)	386	375
Investment property (note 11)	643	488
Cash and cash equivalents (note 8)	737	502
	17,579	**15,628**

a) Investments under securities lending program

The WSIB participates in a securities lending program through an intermediary for the purpose of generating fee income. Non-cash collateral, the fair value of which represents at least 102% of the fair value of the loaned securities, is maintained until the underlying securities have been returned to the WSIB. The fair value of the loaned securities is monitored on a daily basis by an intermediary financial institution with additional collateral obtained or refunded as the fair value of the underlying securities fluctuates. While in the possession of counterparties, the loaned securities may be resold or repledged by such counterparties. The intermediary indemnifies the WSIB against any shortfalls in collateral. These transactions are conducted under terms that are usual and customary to security lending activities as well as requirements determined by exchanges where a financial institution acts as an intermediary.

Under the terms of the securities lending program, the WSIB retains substantially all the risks and rewards of ownership of the loaned securities and also retains contractual rights to the cash flows. These securities are not derecognized from the consolidated statements of financial position and are reclassified as investments under the securities lending program.

As at December 31, 2012, the fair value of securities maintained as collateral was approximately $627 (December 31, 2011 – $551).

Net investment income

Net investment income by category of investments for the years ended December 31 is as follows:

	Fixed income	**Public equities**	**Multi-asset strategies**	**Real estate**	**Infra-structure**	**Other**	**2012**	**2011**
Equity securities	-	886	61	-	-	1	948	(441)
Fixed income securities	187	-	29	-	-	-	216	502
Amortization of premium/discounts on bonds	(12)	1	-	-	-	-	(11)	(12)
Hedge funds	-	-	35	-	-	-	35	168
Real estate debentures	-	-	-	31	-	-	31	60
Commingled investment funds	-	-	117	-	19	-	136	11
Annuities	-	-	-	-	-	4	4	10
Foreign exchange contracts	-	54	61	-	4	-	119	(80)
Futures	-	-	62	-	-	-	62	76
Short-term securities	-	-	-	-	-	5	5	4
Income from associates and jointly controlled entities	-	-	-	55	3	-	58	34
Investment property	-	-	-	82	-	-	82	97
Investment expenses	(1)	(50)	(21)	(34)	(5)	-	(111)	(99)
Less: Income attributable to Loss of Retirement Income Fund (note 16)	(12)	(63)	(24)	(10)	(2)	(4)	(115)	(34)
	162	**828**	**320**	**124**	**19**	**6**	**1,459**	**296**

Net investment income for the years ended December 31 is comprised of:

	2012	**2011**
Realized and unrealized gains	3,693	2,986
Realized and unrealized losses	(2,602)	(3,152)
Interest and dividend income	454	464
Investment property	82	97
Less: Income attributable to Loss of Retirement Income Fund (note 16)	(115)	(34)
Investment income	1,512	361
Investment expenses	(111)	(99)
Income from associates and jointly controlled entities	58	34
	1,459	**296**

10. Investments in Associates and Jointly Controlled Entities

Investments in associates and jointly controlled entities are comprised of the following:

	2012	**2011**
Investments in associates	17	9
Investments in jointly controlled entities	369	366
	386	**375**

Income from associates and jointly controlled entities for the year ended December 31 is comprised of the following:

	2012	**2011**
Loss from associates	(1)	(2)
Income from jointly controlled entities	59	36
	58	**34**

Investments in associates

Associates are entities over which the WSIB has significant influence, but not control. Generally, the WSIB is considered to have significant influence when it holds 20% or more of voting power of an entity, but does not control or jointly control that entity. Investments in associates are accounted for using the equity method (note 3).

	2012	**2011**
Balance, beginning of year	9	12
Additional investment	9	1
Return of capital	-	(1)
WSIB's share of net loss from associates	(1)	(2)
Dividends received and receivable	-	(1)
Balance, end of year	**17**	**9**

As at December 31, 2012, the WSIB had $28 (2011 – $39) of outstanding commitments for additional investments in existing associates.

The following provides a summary of the financial position information of the WSIB's associates:

	2012	2011
Total assets	103	60
Total liabilities	(19)	(28)
Net assets	**84**	**32**
WSIB's share of net assets	17	9

The following provides a summary of the net loss of the WSIB's associates:

	2012	2011
Revenues	7	2
Expenses	(8)	(12)
Gain on sale of investment properties	1	2
Fair value loss of investment properties	(2)	-
Net loss	**(2)**	**(8)**
WSIB's share of net loss	(1)	(2)

Investments in jointly controlled entities

Jointly controlled entities are entities over whose activities the WSIB has joint control. Joint control exists when the strategic, financial and operating decisions related to the entity require unanimous consent of parties sharing control. Investments in jointly controlled entities are accounted for using the equity method (note 3). The WSIB's ownership in the jointly controlled entities, which hold investment properties, ranges from 38% to 77%. While the WSIB's ownership in certain jointly controlled entities is greater or less than 50%, there are contractual agreements in place requiring unanimous consent for significant strategic, financial and operating decisions.

	2012	2011
Balance, beginning of year	366	332
Additional investment	26	9
Return of capital	-	(4)
Disposition	(63)	-
Classification change	(9)	-
WSIB's share of net income from jointly controlled entities	59	36
Dividends received and receivable	(10)	(7)
Balance, end of year	**369**	**366**

As of December 31, 2012 the WSIB had commitments to make additional capital contributions of $194 (December 31, 2011 – $201) to jointly controlled entities. As at December 31, 2012, the jointly controlled entities had total commitments to fund loans for qualified projects over the next five years in the amount of $131 (December 31, 2011 – $138) from the capital contributions from its investors. The WSIB's ownership share represents $101 (December 31, 2011 – $106) of these commitments.

The following provides a summary of the financial position information of the WSIB's jointly controlled entities:

	2012	2011
Total assets	1,159	1,213
Total liabilities	(334)	(389)
Net assets	**825**	**824**
WSIB's share of net assets	369	366

The following provides a summary of the net income of the WSIB's jointly controlled entities:

	2012	2011
Revenues	101	119
Expenses	(80)	(74)
Fair value gains	114	37
Net income	**135**	**82**
WSIB's share of net income	59	36

11. Investment Property

The reconciliation of carrying amounts for investment properties is set forth below:

	2012	2011
Balance, beginning of year	488	402
Additions:		
Asset acquisitions	11	-
Business combinations	100	77
Capital expenditures	18	7
Fair value gains	24	48
Disposals	-	(46)
Other	2	-
Balance, end of year	**643**	**488**

Rental income and operating expenses

Rental income and service charges from investment properties during the year were $56 (2011 – $49) and are included in investment income (note 9). Operating expenses from investment properties during the year were $33 (2011 – $25), and are included in investment expenses (note 9).

Asset acquisition

In 2012, the WSIB acquired a 75% undivided co-ownership interest in an investment property through an asset acquisition for total cash consideration of $11.

Business combinations

During 2012, the WSIB acquired three income-producing investment properties through the acquisition of 100% of two businesses and 80% of another for total purchase consideration of $55. The WSIB also acquired control of an investment property by increasing the WSIB's interest to 100% for consideration of $8.

During 2011, the WSIB acquired two income-producing investment properties through the acquisition of 100% of two businesses for total purchase consideration of $75.

Total assets acquired and liabilities assumed were as follows:

	2012	2011
Receivables and other assets	1	-
Investment property	100	77
Payables	(1)	(2)
Mortgage payable	(22)	-
Total fair value of net identifiable assets	**78**	**75**
Non-controlling interests	(5)	-
Fair value of existing interest	(9)	-
Purchase discount	(1)	-
Total consideration transferred	**63**	**75**

During 2011, the WSIB sold an investment property through the disposition of a business for net proceeds of $47. A gain on the sale of the business of $0.3 is included in investment income.

Fair value measurements

Fair values of investment properties are estimated based on valuations performed by external and internal qualified appraisers. The fair values of investment properties are updated quarterly based on valuation models incorporating available market evidence. These models incorporate a number of approaches that typically include a direct capitalization income method, a discounted cash flow analysis, and a direct comparison approach. At least one updated valuation per year is based on an external appraisal.

Under the direct capitalization income approach, capitalization rates are applied to the stabilized net operating income of each property. The following significant assumptions were used in the determination of estimated fair value using this approach:

	2012	2011
Office properties		
Capitalization rates	6.3% - 7.5%	6.3% - 8.0%
Industrial properties		
Capitalization rates	6.0% - 7.0%	6.3% - 9.0%
Retail property		
Capitalization rate	6.0%	-

Under the discounted cash flow method, the present value of expected future cash flows is estimated. The following significant assumptions were used in the determination of estimated fair value using this method:

	2012	2011
Office properties		
Discount rates	7.0% - 8.3%	7.3% - 8.5%
Terminal capitalization rates	6.3% - 7.3%	6.5% - 8.0%
Industrial properties		
Discount rates	7.0% - 8.0%	7.3% - 8.3%
Terminal capitalization rates	6.5% - 7.3%	6.8% - 7.5%
Retail properties		
Discount rates	7.5% - 8.0%	-
Terminal capitalization rates	6.3% - 6.8%	-

Leases of investment properties

The WSIB is the lessor for a number of operating leases of its investment properties. These leases typically have a term of 2 to 10 years, with an option to renew. All operating lease contracts contain market review clauses in the event the lessee exercises its option to renew. The leases do not provide the lessee with an option to purchase the property at the end of the lease term.

The future minimum lease payments to be received under non-cancellable leases are as follows:

	Minimum lease payments
Not later than one year	35
Later than one year and not later than five years	115
Later than five years	47
	197

12. Jointly Controlled Assets

Jointly controlled assets are investments in economic activities over which the WSIB has joint control. Joint control exists when the strategic, financial and operating decisions related to the assets require the unanimous consent of parties sharing control.

These consolidated financial statements include the WSIB's share of the jointly controlled assets and its share of the liabilities incurred jointly with the other investors. The consolidated financial statements also include the WSIB's share of the revenues generated and expenses incurred by the economic activity related to the jointly controlled assets.

The WSIB's ownership interests in jointly controlled assets at December 31, 2012 are as follows:

	Ownership
Simcoe Place (a)	75%
Mississauga property (b)	50%

a) The WSIB has a 75% undivided co-ownership interest in an office tower situated at 200 Front Street West, Toronto, Ontario ("Simcoe Place"). The WSIB occupies approximately 71% of the premises and recognizes its share of the property within property and equipment and its share of operating expenses in administration and other expenses. As at December 31, 2012, the WSIB had no capital commitments with respect to Simcoe Place.

b) The WSIB has a 50% undivided co-ownership interest in an office and retail complex of four office buildings and adjoining development lands located in Mississauga, Ontario (the "Mississauga Property"). As at December 31, 2012, the WSIB had no capital commitments with respect to the Mississauga Property.

The following amounts related to the jointly controlled assets are included in the WSIB's consolidated financial statements:

	Simcoe Place	Mississauga Property	2012	2011
Other assets	7	8	15	11
Property and equipment	127	-	127	130
Investment property	-	69	69	66
Payables	(4)	(2)	(6)	(4)
Long-term debt	(82)	-	(82)	(85)
Net assets	**48**	**75**	**123**	**118**
Investment income	-	14	14	9
Investment expenses	-	(7)	(7)	(5)
Administration and other expense	(28)	-	(28)	(31)
Comprehensive income (loss)	**(28)**	**7**	**(21)**	**(27)**

13. Property and Equipment

	Land	Buildings	Leasehold improvements	Office and computer equipment	Total
Cost					
Balance at January 1, 2011	40	120	92	198	450
Additions	-	-	1	9	10
Disposals	-	-	(26)	(178)	(204)
Adjustments	-	(18)	-	-	(18)
Balance at December 31, 2011	40	102	67	29	238
Additions	-	-	-	2	2
Balance at December 31, 2012	**40**	**102**	**67**	**31**	**240**
Accumulated amortization					
Balance at January 1, 2011	-	3	76	185	264
Amortization	-	3	5	5	13
Disposals	-	-	(26)	(177)	(203)
Adjustments	-	5	-	-	5
Balance at December 31, 2011	-	11	55	13	79
Amortization	-	4	4	6	14
Balance at December 31, 2012	-	**15**	**59**	**19**	**93**
Carrying amount					
At December 31, 2012	40	87	8	12	147
At December 31, 2011	40	91	12	16	159

Amortization of property and equipment is included in administration and other expenses on the consolidated statements of comprehensive income (loss).

The WSIB has a 75% undivided co-ownership interest in Simcoe Place, and occupies approximately 71% of the property. The WSIB's share of the land, building and leasehold improvements is included in property and equipment.

Property and equipment includes the following carrying values for assets under finance lease:

	2012	2011
Land	40	40
Office and computer equipment	3	6
	43	**46**

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14. Intangible Assets

	Internally developed software	Acquired software	Total
Cost			
Balance at January 1, 2011	114	63	177
Additions	14	2	16
Disposals	(2)	(60)	(62)
Impairment	(51)	-	(51)
Balance at December 31, 2011	75	5	80
Additions	3	1	4
Impairment	(5)	-	(5)
Balance at December 31, 2012	**73**	**6**	**79**
Accumulated amortization			
Balance at January 1, 2011	17	59	76
Amortization	9	3	12
Disposals	-	(58)	(58)
Balance at December 31, 2011	26	4	30
Amortization	31	1	32
Balance at December 31, 2012	**57**	**5**	**62**
Carrying amounts			
At December 31, 2012	16	1	17
At December 31, 2011	49	1	50

The carrying amount for internally developed software at December 31, 2012 includes $4 of costs for software that is not yet available for use and therefore is not yet subject to amortization (December 31, 2011 – $25).

Amortization and impairment of intangible assets is included in administration and other expenses on the consolidated statements of comprehensive income (loss).

Impairment

During the year, management determined that certain elements of internally developed software may not be implemented as originally intended due to business transformation initiatives. An impairment charge of $5 (2011 – $51) was recognized in the consolidated statement of comprehensive income (loss) and the carrying amount of the impaired elements of internally developed software was reduced to $nil.

15. Long-term Debt

Long-term debt is comprised of the following:

	2012	2011
Mortgages payable	111	93
Bank loan	10	-
Obligations under finance leases	48	50
	169	143
Current portion	(7)	(6)
	162	**137**

Mortgages payable

The WSIB has a mortgage loan agreement related to Simcoe Place (note 12) that is secured by the building and matures in 2015. The interest rate is fixed at 10.25% per annum compounded semi-annually. The balance of this mortgage as at December 31, 2012, was $61 (December 31, 2011 – $62). For the year ended December 31, 2012, interest of $6 was included in administration and other expenses (2011 – $6).

Mortgages related to investment properties are held with a total principal balance of $50 (December 31, 2011 – $31). The mortgages have annual fixed interest rates of 4.10% to 6.08%, and mature between 2014 and 2015. For the year ended December 31, 2012, interest of $2 was included in investment expenses (2011 – $2).

At December 31, 2012, future principal payments on mortgages payable were as follows:

	Principal payments
Not later than one year	4
Later than one year and not later than five years	107
Later than five years	-
	111

Bank loan

A subsidiary of the WSIB entered into a bank loan on January 1, 2012 related to an investment property. The loan is secured by the investment property, bearing interest on a floating rate basis at the lender's inter-bank rate plus 3% per annum, and matures on April 5, 2015.

Obligations under finance leases

The WSIB has a finance lease related to the land at Simcoe Place (note 12) with minimum annual lease payments of $4 (2011 – $4). The lease expires in 2027, at which point the WSIB has an option to purchase a 75% interest in the land for $2. Management considers this option to be advantageous and expects the option will be exercised. The interest rate on this finance lease is 19.59%.

The WSIB has three operating leases for investment properties. The WSIB has elected to measure these investment properties at fair value and to account for the related operating leases as finance leases (note 3). These leases have total annual minimum lease payments of $2 and interest rates of 5.59% to 9.05%. Two of the leases have remaining lease terms of 39 years, the other has a remaining lease term of 75 years.

The WSIB has three finance leases for computer equipment with remaining lease terms of one to two years and interest rates of 3.50% to 4.19%. The leases have total annual minimum lease payments of $3 for the next 12 months, subsequent to which the total annual minimum lease payments decrease to $0.2.

Future minimum lease payments under finance leases are as follows:

	Future minimum lease payments	Interest	Present value of minimum lease payments
Not later than one year	9	(6)	3
Later than one year and not later than five years	24	(22)	2
Later than five years	126	(83)	43
	159	**(111)**	**48**

16. Loss of Retirement Income Fund Liability

The Loss of Retirement Income Fund liability represents an obligation for payments of retirement benefits to eligible workers.

	2012	2011
Balance, beginning of the year	1,254	1,193
Contributions from the WSIB	67	70
Optional contributions from injured workers	9	9
Contributions from Schedule 2 employers	4	5
Investment income (note 9)	115	34
Benefits paid in cash	(72)	(57)
Balance, end of year	**1,377**	**1,254**

The WSIB contributes five percent of the loss of earnings benefits once a worker of a Schedule 1 employer has been receiving loss of earnings benefits for twelve continuous months. The WSIB's contributions are recognized in the consolidated statements of comprehensive income (loss) as Loss of Retirement Income Fund contributions.

Workers eligible for loss of retirement income benefits can choose to contribute a further 5% from their loss of earnings benefits. Schedule 2 employers are required to contribute 5% of the loss of earnings benefits for their workers once loss of earnings benefits are received for twelve continuous months.

For claims incurred prior to January 1, 1998, the contribution from the WSIB and Schedule 2 employers is 10% of every future economic loss payment made to injured workers.

Total contributions are segregated within the WSIB's investment portfolio as Loss of Retirement Income Fund. The WSIB's obligation pursuant to the WSIA is to provide retirement benefits equal to the WSIB's contributions, contributions from injured workers and contributions from Schedule 2 employers, plus the investment income earned on those contributions. As such, the Loss of Retirement Income Fund liability is measured as the fair value of the assets in the Loss of Retirement Income Fund.

The assets of the Loss of Retirement Income Fund are included in the total investment portfolio (note 9). The following provides a summary of the assets by category as defined by the WSIB's SIPP:

	Fixed income	Public equities	Multi-asset strategies	Real estate	Infra-structure	Cash and other	Total
December 31, 2012	306	498	256	84	18	215	1,377
% of total	22%	36%	19%	6%	1%	16%	100%
December 31, 2011	338	472	148	73	11	212	1,254
% of total	27%	37%	12%	6%	1%	17%	100%

17. Employee Benefit Plans

The WSIB maintains two employee defined benefit pension plans, and a defined benefit plan that provides other long-term employee benefits including post-employment dental, extended health and life insurance benefits. The cost of employee benefit plans is recognized as the employees provide service to the WSIB, and the obligations for these plans are measured individually as the present value of the benefit obligation less the fair value of plan assets.

The WSIB Employees' Pension Plan provides for partially indexed pensions based on years of service and the best five consecutive years' average earnings in the last 10 years of employment. The WSIB Employees' Supplementary Pension Plan ensures that employees whose earnings exceed the threshold earnings for the maximum pension benefit permitted under the Federal *Income Tax Act* will receive pension benefits based on their total earnings. The other long-term employee benefit plan provides certain post-employment medical, dental and insurance benefits.

Long term benefit plan expense

The cost of the employee benefit plans recognized in Administration and other expenses is as follows:

	2012	2011
Current service cost	95	73
Interest cost	143	145
Expected return on plan assets	(118)	(129)
Past service cost	24	-
Actuarial losses recognized	23	-
Other	2	1
	169	**90**

Employee benefit plan liability

The liability for the employee benefit plans is comprised of the following:

	2012	2011
Present value of unfunded obligations	655	594
Present value of wholly or partly funded obligations	3,089	2,686
Total present value of obligations	3,744	3,280
Fair value of assets	(2,074)	(1,883)
Deficit	1,670	1,397
Unrecognized actuarial losses	(762)	(585)
	908	**812**

The movement in the total present value of defined benefit obligations is as follows:

	2012	2011
Balance, beginning of year	3,280	2,737
Current service cost	95	73
Interest cost	143	145
Contributions by employees	28	26
Past service cost	25	-
Actuarial losses	276	385
Benefits paid	(103)	(86)
Balance, end of year	**3,744**	**3,280**

Benefits paid during 2013 are projected to be $105, and the WSIB's contributions to the plans are projected to be $97.

Fair value of the plan assets

The movement in the total fair value of plan assets is as follows:

	2012	2011
Balance, beginning of year	1,883	1,838
Expected return on plan assets	118	129
Actuarial (losses) gains	76	(88)
Contributions by the WSIB	72	64
Contributions by employees	28	26
Benefits paid	(103)	(86)
Balance, end of year	**2,074**	**1,883**

Plan assets are comprised of the following:

	2012		2011	
	$	%	$	%
Plan assets by major category				
Public equities	871	42%	803	43%
Fixed income	547	26%	615	33%
Real estate	154	7%	134	7%
Infrastructure	33	2%	21	1%
Multi-asset strategies and other	469	23%	310	16%
Total	2,074	100%	1,883	100%

Actuarial assumptions

The significant actuarial assumptions used in the determination of the present value of the defined benefit obligations are as follows:

	2012	2011
Discount rate – plan expenses	4.25%	5.20%
Discount rate – accrued benefit obligation	3.90%	4.25%
Inflation	2.50%	2.50%
Salary increases	3.50%-4.50%	3.50%-4.50%
Health care increases (i)	8.00%	9.00%
Dental increases	4.00%	4.00%
Expected rate of return on plan assets (ii)	6.25%	7.00%
Average remaining service period (years)	14	14

Notes:

i) The assumptions for health care increases are for the subsequent year, after which the increase assumptions decline one hundred basis points per annum to 4.0% in 2017 and thereafter.

ii) The plan assets are managed in accordance with the WSIB's SIPP. The assumption of a 6.25% return on plan assets is determined with reference to the SIPP's long-term investment return objective of 6%. Actual return on plan assets for the year ended December 31, 2012 was 10.4% (2011 – 2.2%).

The assumptions for mortality rates are based on the UP94 projected generationally using scale AA for pension and benefit plans as at December 31, 2012. In 2011, they were based on the UP94 projected to 2019 using scale AA for pension and benefit plans.

A one hundred basis point change in the health care and dental trend rates would have the following effect on the defined benefit plan expense and liability:

	One hundred basis points	
	Increase	Decrease
Increase (decrease) in current service cost	3	(2)
Increase (decrease) in interest cost	4	(3)
	7	**(5)**
Increase (decrease) in defined benefit obligations	100	(82)

18. Benefit Liabilities and Benefit Costs

Benefit liabilities

Benefit liabilities represent the estimated present value of the WSIB's obligation for future benefit payments of claims related to workers of Schedule 1 employers. Benefit liabilities cover reported and unreported claims incurred on or before December 31, 2012, occupational disease claims expected to arise in the future as a result of exposures incurred in the workplace on or before December 31, 2012 in respect of occupational diseases currently recognized by the WSIB, as well as the estimated cost of administering those claims. Benefit liabilities are based on the level and nature of entitlement under the WSIA and adjudication practices in effect at that date.

Benefit liabilities do not include any amounts for claims related to workers of Schedule 2 employers; the WSIB's payment of those claims is reimbursed by the self-insured Schedule 2 employer on an on-going basis.

Benefit liabilities are actuarially determined in accordance with the standards of practice established by the Canadian Institute of Actuaries.

Benefit liabilities are comprised of the following:

	2012	**2011**
Loss of earnings	9,366	9,613
Workers' pensions	6,405	6,552
Health care	3,811	3,589
Survivor benefits	2,426	2,314
Future economic loss	1,902	2,176
External providers	281	254
Non-economic loss	307	231
Claim administration	1,127	1,011
Long latent occupational diseases	1,425	650
	27,050	**26,390**

Further details of the changes in benefit liabilities are as follows:

	Loss of earnings	**Workers' pensions**	**Future economic loss**	**Health care**	**Non-economic loss**	**External providers**	**Survivor benefits**	**Claim admin.**	**Occupational diseases**	**2012**	**2011**
Benefit liabilities, beginning of year	9,613	6,552	2,176	3,589	231	254	2,314	1,011	650	**26,390**	**24,350**
Claim costs recognized during the year	871	-	-	436	52	59	104	367	-	**1,889**	**1,818**
Payments processed during the year	(1,022)	(657)	(294)	(458)	(60)	(65)	(176)	(431)	-	**(3,163)**	**(3,256)**
Interest expense on the liability	499	341	111	185	12	12	123	52	36	**1,371**	**1,705**
Impact of actuarial remeasurement	363	208	(89)	220	52	17	57	35	775	**1,638**	**2,860**
Changes in claims experience	(958)	(39)	(2)	(161)	20	4	4	93	(36)	**(1,075)**	**(1,087)**
Benefit liabilities, end of year	**9,366**	**6,405**	**1,902**	**3,811**	**307**	**281**	**2,426**	**1,127**	**1,425**	**27,050**	**26,390**

A summary of the changes in benefit liabilities is as follows:

	2012	2011
Benefit liabilities, beginning of year	26,390	24,350
Benefit costs	3,773	5,260
Benefit costs paid during the year	(3,113)	(3,220)
Benefit liabilities, end of year	**27,050**	**26,390**

Benefit costs

Benefit costs are comprised of the following:

	2012	2011
Benefit payments	2,664	2,850
Claim administration costs	449	370
Change in benefit liabilities	660	2,040
	3,773	5,260

Benefit payments represent cash paid during the year to or on behalf of injured workers. Benefit payments are comprised of the following:

	2012	2011
Loss of earnings	968	1,069
Workers' pensions	652	678
Health care	457	468
Survivor benefits	176	172
Future economic loss	259	278
External providers	65	86
Non-economic loss	60	88
Other	27	11
Benefit costs paid to or on behalf of injured workers	**2,664**	**2,850**
Claim administration costs	449	370
Benefit costs paid during the year	**3,113**	**3,220**

Change in actuarial valuation

The change in the actuarial valuation of benefit liabilities is comprised of the following:

	2012	**2011**
Changes in estimate of cost of claims	(2,349)	(2,525)
Changes in actuarial assumptions and methods	1,638	2,860
Accretion [i]	1,371	1,705
	660	**2,040**

Notes:

i) Accretion represents the estimated interest cost of the benefits liability, considering the discount rate, benefit liabilities at the beginning of the year and payments during the year.

The changes in actuarial assumptions and methods are comprised of the following:

	2012	**2011**
Change in discount rate	150	2,060
Change in method and assumptions for loss of earnings benefits	310	730
Change in mortality rate	-	70
Change in occupational disease assumptions and methods	775	-
Changes for health care benefits	196	-
Changes for future claim administration costs	29	-
Other changes of methodology and assumptions	178	-
	1,638	**2,860**

Assumptions and actuarial methods

The actuarial present value of future benefit payments depends on actuarial assumptions, including economic assumptions, which are based on past experience modified for current trends and expected development. Actuarial assumptions are reviewed annually when the actuarial valuation is performed. Management believes the valuation methods and assumptions are, in aggregate, appropriate for the valuation of benefit liabilities.

The following table summarizes the main underlying actuarial assumptions used in estimating the categories of benefit liabilities:

Actuarial Assumption	Note	Loss of earnings	Workers' pensions	Health care	Survivor benefits	Future economic loss	External providers	Non-economic loss	Long latency occupational diseases
Discount rate	a)	√	√	√	√	√	√	√	√
Indexation	a)	√	√	-	√	√	-	√	√
Wage escalation	a)	√	√	-	√	√	√	√	√
Health care escalation	a)	-	-	√	-	-	-	-	√
Wage loss	b)	√	-	-	-	√	-	-	√
Mortality	c)	√	√	√	√	√	-	√	√
Claims incidence	d)	√	-	-	-	-	-	-	√
Termination	d)	√	-	-	-	-	-	-	√
Exposure index	d)	√	√	√	√	√	√	√	√
Expenses	f)	√	√	√	√	√	√	√	√

a) Economic assumptions

The following provides a summary of the primary economic assumptions used in the actuarial valuation of benefit liabilities:

	2012	**2011**	**Change**
Discount rate	2012-2017 - 5.5% thereafter - 6.0%	2012-2015 - 5.5% thereafter - 6.0%	-
Indexation of benefits rate:			
Fully indexed to inflation	2.5%	2.5%	-
Partially indexed	0.5%	0.5%	-
Wage escalation rate	3.5%	3.5%	-
Health care costs escalation rate	4.5%	6.5%	(2.0%)

For partially indexed loss of earnings and workers' pensions related to injuries since April 1, 1985, the assumption used for partially indexed benefits has been revised to better reflect the application of the current temporary indexing factor of 0.5%. This factor is scheduled to expire in 2014, at which time the valuation assumptions will be reviewed to properly take account of any changes.

b) Wage loss

Wage loss refers to the proportion of a worker's wages that are lost due to an injury. Most benefits influenced by wage loss are based on historical experience and limits in the WSIA.

c) Mortality

Mortality rates are used to estimate the duration for which the WSIB will continue to be required to make payments to injured workers or survivors receiving monthly pension amounts. The mortality assumptions are determined separately for injured workers and survivors as follows:

i) the mortality assumption for injured workers is based on an actuarial study of the mortality levels by age and gender experienced by WSIB disability income recipients from 1996-2000, adjusted to reflect any prevailing improvements (or otherwise) in the experience of WSIB injured workers up to and including 2012;

ii) the mortality assumption for those receiving survivor benefits is based on an actuarial study of mortality levels experienced by WSIB survivors, and the 2000-2002 Province of Ontario population mortality table developed by Statistics Canada, adjusted to reflect any prevailing improvements (or otherwise) in the experience of WSIB survivors up to and including 2012; and

iii) the mortality rates for both injured workers and survivors are projected for future years using the Canada Pension Plan's mortality improvement factors. As such, future mortality rates are reduced to allow for greater future longevity expected for injured workers and survivors.

d) Claims incidence, termination and employment

Claims incidence refers to the number of claims incurred during the year and requires actuarial assumptions for the number of claims expected to have been incurred but not reported at December 31, 2012. Termination refers to the actuarial assumptions regarding the future duration of claims. Exposure index refers to the indicator used to assist predicting certain future costs for different injury years and represents, on a relative basis, the level of risk insured by the WSIB.

The assumptions regarding claims incidence are determined based on the number of claims incurred in past years. The termination assumption is determined using average termination experience of the WSIB from three recent injury years and modified for the existing claims expected to be of longer duration. The exposure index has been developed using the number of claims incurred up to injury years 1998, and for subsequent years, the number of workers covered by the WSIB, adjusted by the variation in the average risk associated with these workers.

e) Occupational diseases

Occupational diseases refer to future occupational disease claims arising from exposures up to the valuation date to hazardous substances or conditions, such as asbestos and excessive noise. An in-depth study was performed in 2012 to estimate the number of latent occupational disease claims, the latency periods and their expected costs. These costs are for loss of earnings, labour market re-entry, future economic loss, health care, survivor benefits, retirement income benefits, and claim administration costs. The assumptions used for the determination of benefit liabilities were primarily based on the historical experience of the WSIB.

f) Expenses

Ratios of claim administration expenses to the amounts of claims paid are used to estimate the future cost of claim administration for current claims. These ratios had been developed in analyzing claims administration and other claims related management expenses for all cost centers at the WSIB by claim type, duration and amount. In 2012, the cost ratios have been updated and a provision for the financing of the Workplace Safety and Insurance Appeals Tribunal has been added.

Sensitivity of actuarial assumptions

Changes in the actuarial assumptions used have a significant effect on the benefit cost recognized. The following provides an estimate of the potential impact of a change in the more significant assumptions:

Change in assumption	Increase in benefit cost 2012
100 basis point decrease in the discount rate	2,501
100 basis point increase in the benefit indexation rate	
Impact on benefit indexation rate [i]	967
Impact on wage growth	445
Impact of health care cost escalation	468

Notes:

i) Full indexing rate is 3.5% instead of 2.5% and partial rate is 0.75% instead of 0.50%.

Claims development

Benefit liabilities include the current estimate of future payments related to claims incurred during 2012 and prior years. Each reporting period, benefit liabilities are adjusted for changes in the estimate of the future payments, and the change in estimate is recognized in benefit costs. The table below provides the development of the estimates related to claims incurred from 2006 – 2012.

	Year of injury							
	2006	2007	2008	2009	2010	2011	2012	Total
Year of estimate								
2006	2,353							
2007	2,606	2,488						
2008	2,675	2,458	2,393					
2009	2,984	2,786	2,620	2,164				
2010	3,091	3,105	3,052	2,418	2,361			
2011	3,231	3,286	3,065	2,207	2,744	2,760		
2012	3,245	3,423	3,241	2,518	2,270	2,363	2,815	
Current estimate of cumulative claims costs	3,245	3,423	3,241	2,518	2,270	2,363	2,815	19,875
Cumulative payments made	(1,355)	(1,249)	(1,053)	(644)	(447)	(314)	(156)	(5,218)
Outstanding claims	1,890	2,174	2,188	1,874	1,823	2,049	2,659	14,657
Effect of discounting	(892)	(1,023)	(1,049)	(934)	(938)	(1,055)	(1,301)	(7,192)
Discounted claims	998	1,151	1,139	940	885	994	1,358	7,465
Outstanding claims 2005 and prior years								17,033
Claims administration								1,127
Long latency occupational diseases								1,425
Total outstanding claims								**27,050**

Rate setting

In accordance with the WSIA, the WSIB's obligations are satisfied by charging annual premiums to all Schedule 1 employers and investment income. The premiums are determined based on a percentage of insurable payrolls of each Schedule 1 employer. Schedule 1 employers are classified within specific rate groups, which are based on the nature of the employer's business. The premium rate applicable to particular rate groups and Schedule 1 employers within that group is determined as the sum of four main components:

i) the cost of new claims, which is based on the expected number of claims and benefit payment costs of that rate group;

ii) administration costs, which is based on the rate group's share of expected administration costs and legislative obligations of the WSIB;

iii) the cost of old claims, which is based on the amortization of the shortfall between the costs of old claims and the accumulated assets supporting those claims; and

iv) experience rating, which, depending on the size and class of the employer, is based on relative historical cost performance of the employer relative to other employers in the same rate group.

Concentration of risks

The WSIB provides workplace injury insurance for all Schedule 1 employers with workers in the Province. In this respect, the WSIB's risk is concentrated among the workplace risks associated with industries in the Province. The insurable payroll by industry for the year ended December 31, 2012 is provided below.

Industry	Insurable payroll	% of total
Agriculture	1,817	1.1%
Automotive	6,842	4.2%
Construction	15,668	9.5%
Education	6,486	4.0%
Electrical	5,239	3.2%
Food	4,860	3.0%
Forestry	364	0.2%
Health care	21,753	13.3%
Manufacturing	36,199	22.0%
Mining	2,018	1.2%
Municipal	2,004	1.2%
Primary metals	1,660	1.0%
Process and chemicals	4,448	2.7%
Pulp and paper	726	0.4%
Services	44,589	27.2%
Transportation	9,484	5.8%
Total	**164,157**	**100.0%**

In addition, the WSIB's risks are concentrated among the workplace injuries and diseases that result in disabilities or deaths to injured workers. The WSIA does not provide the WSIB with the ability to diversify away from these risks. Additional risks can arise from appeals or legislative changes, which can produce an immediate increase in benefit liabilities.

The premium rates are the only means to mitigate these risks, other than investment income. Premium rates are adjusted annually as benefit liabilities and risks are reviewed and then differentiated by rate group in order to reflect the higher or lower expected costs and loss frequency associated with particular rate groups. In addition, the rates charged to larger employers in the same rate group are further adjusted based on the historical claims experience of that employer relative to the rate group as a whole.

Liquidity of benefit liabilities risks

The following table provides an estimate of the expected timing of undiscounted cash flows for benefit payments for claims:

	2012	2011
Up to one year	5%	6%
Over one year and up to five years	18%	22%
Over five years and up to ten years	19%	22%
Over ten years and up to fifteen years	16%	17%
Over fifteen years	42%	33%
	100%	**100%**

19. Commitments and Contingent Liabilities

Operating leases

The WSIB is the lessee to a number of operating leases for office space and computer equipment, with lease terms up to 10 years.

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	Minimum lease payments
Not later than one year	13
Later than one year and not later than five years	24
Later than five years	9
	46

During the year ended December 31, 2012, operating lease payments of $13 (2011 – $13) were recognized in administration and other expenses. The payments included charges for operating expenses related to the leases of office space.

Investment commitments

As of December 31, 2012, the WSIB had commitments to fund real estate and infrastructure investments for $14 and $417 (2011 – $21 and $67), respectively.

The WSIB also has commitments related to its investments in associates and jointly controlled entities for $222 (2011 – $240) (note 10).

At December 31, 2012 and 2011, the WSIB had no commitments for the purchase or development of investment properties and no commitments related to the repair and maintenance of investment properties.

Legislated obligations and commitments

The WSIB is required to reimburse the Government of Ontario for all administrative costs of the *Occupational Health and Safety Act* (the "OHSA"). The WSIB is also required to fund the Workplace Safety and Insurance Appeals Tribunal, the offices of each of the Worker and Employer Adviser, and provide funding for the Institute for Work & Health, Safe Workplace Associations, clinics, and training centres. Funding is recognized in the consolidated statements of comprehensive income (loss) in the period to which the funding related.

Known commitments related to legislated obligations as at December 31, 2012 were approximately $240 for 2013.

Other commitments

At December 31, 2012, the WSIB has additional commitments going forward under non-cancellable contracts for purchases of goods and services with minimum future payments of approximately $133 (2011 – $98).

Legal actions

The WSIB is engaged in various legal proceedings and claims that have arisen in the ordinary course of business, the outcome of which is subject to future resolution. Based on information currently known to the WSIB, management believes the probable ultimate resolution of all existing legal proceedings and claims will not have a material effect on the WSIB's consolidated financial position.

The WSIB has provided formal written indemnities to its current and former directors to indemnify them, to the extent permitted by law, against any and all charges, costs, expenses, and amounts paid in settlement and damages incurred as a result of any lawsuit or any other judicial, administrative or investigative proceeding in which they are involved as a result of their services.

Additionally, the WSIB has purchased directors' and officers' liability insurance. The WSIB also indemnifies and provides legal representation to all its employees, former employees and persons engaged by the WSIB to conduct an examination, test, enquiry or other authorized function in legal proceedings arising out of alleged acts or omissions in the performance of their duties, provided the person has acted honestly and in good faith.

Also, in the normal course of operations, the WSIB may enter into contractual arrangements with external parties that involve promises to indemnify the other party under certain circumstances. As part of its investment function, the WSIB may also provide indemnification agreements to counterparties that would require the WSIB to compensate them for costs incurred as a result of changes in laws and regulations or as a result of litigation claims or statutory sanctions that may be suffered by the counterparty as a consequence of the transaction. The terms of these indemnification arrangements vary.

20. Financial Instruments Fair Value Measurement and Disclosures

The following table summarizes the fair values of the WSIB's financial instruments. The estimated fair value amounts are designed to approximate amounts at which financial instruments could be exchanged in a current transaction between willing parties who are under no compulsion to act.

Due to the estimation process and the need to use judgment, the aggregate fair value amounts should not be interpreted as being necessarily realizable in an immediate settlement of the instruments.

	2012		2011	
	Fair value	**Carrying value**	**Fair value**	**Carrying value**
Assets				
Cash and cash equivalents (i)	1,331	1,331	983	983
Receivables (ii)	1,009	1,009	1,041	1,041
Investment receivables (ii)	159	159	115	115
Investments (i)	15,100	15,100	13,648	13,648
Investments under securities lending program (i)	592	592	523	523
	18,191	**18,191**	**16,310**	**16,310**
Liabilities				
Payables and accruals (ii)	1,038	1,038	1,077	1,077
Investment payables (ii)	38	38	23	23
Long-term debt (iii)	204	169	179	143
	1,280	**1,245**	**1,279**	**1,243**

Notes:

i) Cash and cash equivalents, investments and investments under securities lending program are measured at fair value in the consolidated statements of financial position.

ii) Receivables, investment receivables and payables and accruals are measured at amortized cost in the consolidated statements of financial position. Due to the short term nature of these financial assets and financial liabilities, the carrying value approximates fair value.

iii) Long-term debt is measured at amortized cost in the consolidated statements of financial position.

Fair value hierarchy

The WSIB uses a fair value hierarchy to categorize the inputs used in valuation techniques to measure the fair value of financial instruments. The classifications are as follows:

i) the use of quoted market prices for identical financial instruments (Level 1);

ii) internal models using observable market information as inputs (Level 2); and

iii) internal models without observable market information as inputs (Level 3).

	2012				2011			
	Level 1	**Level 2**	**Level 3**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Total**
Cash	631	-	-	631	467	-	-	467
Short-term money market securities	-	700	-	700	-	516	-	516
	631	700	-	1,331	467	516	-	983
Foreign exchange contracts	-	(48)	-	(48)	-	71	-	71
Futures	-	(2)	-	(2)	-	(1)	-	(1)
Fixed income securities	-	5,058	-	5,058	-	5,337	-	5,337
Equity securities	7,668	38	1	7,707	6,839	35	1	6,875
Hedge funds	-	1,036	-	1,036	-	1,344	-	1,344
Commingled investment funds	-	1,514	-	1,514	-	134	-	134
Real estate debentures	-	-	356	356	-	-	337	337
Loss of Retirement Income Fund annuities	-	71	-	71	-	74	-	74
Investments and investments under securities lending program	7,668	7,667	357	15,692	6,839	6,994	338	14,171
	8,299	**8,367**	**357**	**17,023**	**7,306**	**7,510**	**338**	**15,154**

During 2012, there were no changes in the levels of classification of the investments. During 2011, $158 of hedge funds and $4 of fixed income securities were transferred from Level 3 to Level 2.

Level 3 financial instruments

The table below provides a reconciliation of total financial instruments measured at fair value using internal models without observable market information as inputs (Level 3):

	2012	**2011**
Balance at beginning of year	338	470
Purchases	9	6
Sales	(10)	(36)
Transfers to Level 2	-	(162)
Realized gains recognized in net investment income	2	24
Unrealized gains recognized in net investment income	18	36
	357	**338**

The fair value of real estate debentures included in Level 3 are estimated based on valuations of the underlying investment properties performed by independent professional third-party appraisers using models incorporating available market evidence. The valuations of the underlying investment properties are primarily based on discounted expected future cash flows of each property, using a discount and terminal capitalization rate reflective of the characteristics, location and market of each property. The future cash flows of each property are based on, among other things, rental income from current leases and assumptions about rental income from future leases reflecting current conditions, less future cash outflows relating to such current and future leases. The WSIB has estimated that a 25 basis point increase (decrease) in the assumptions used for both the terminal capitalization rate and discount rate would result in a $17 decrease (increase) in the estimated fair value of the real estate debentures.

21. Financial Risk Management

The WSIB is exposed to a number of risks and uncertainties related to its financial instruments. In order to mitigate these risks, the WSIB employs a broad and diversified set of risk mitigation policies and techniques.

Liquidity risk

Liquidity risk, or funding risk, is the risk the WSIB will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from an inability to sell a financial asset quickly at close to its fair value.

The WSIB mitigates this risk by ensuring the majority of its investment portfolio is invested in well established, active and liquid markets. Note 20 provides information on how the WSIB categorizes its financial instruments according to a hierarchy of fair value measurements. As at December 31, 2012, 72.6% (2011 – 78.1%) of the investment portfolio was invested in readily marketable fixed income securities and publicly traded equities. Note 9 provides further information on the nature of the assets within the investment portfolio.

The following provides the carrying values of all financial instruments by contractual maturity or expected cash flow:

	Within 1 year	**2 - 5 years**	**6 - 10 years**	**Over 10 years**	**No fixed maturity**	**2012**	**2011**
Equity securities	-	-	-	-	7,707	7,707	6,875
Fixed income securities	29	2,136	1,304	1,589	-	5,058	5,337
Hedge fund	-	-	-	-	1,036	1,036	1,344
Real estate debentures	-	-	-	-	356	356	337
Commingled investment funds	-	-	-	-	1,514	1,514	134
Annuities	-	-	-	-	71	71	74
Foreign exchange contracts	(48)	-	-	-	-	(48)	71
Futures	(2)	-	-	-	-	(2)	(1)
Investments and investments under securities lending program	(21)	2,136	1,304	1,589	10,684	15,692	14,171
Cash and cash equivalents	1,331	-	-	-	-	1,331	983
Receivables	1,009	-	-	-	-	1,009	1,041
Investment receivables	159	-	-	-	-	159	115
Payables and accruals	(1,038)	-	-	-	-	(1,038)	(1,083)
Investment payables	(38)	-	-	-	-	(38)	(23)
Long-term debt	(7)	(119)	(6)	(37)	-	(169)	(137)
	1,395	**2,017**	**1,298**	**1,552**	**10,684**	**16,946**	**15,067**

The following provides further liquidity information regarding foreign exchange contracts:

	Carrying amount	**Contractual cash flows**	**6 months or less**	**6 months to 1 year**
Forward exchange contracts				
Pending payables	(7,343)	(7,343)	(7,343)	-
Pending receivables	7,295	7,295	7,295	-
	(48)	**(48)**	**(48)**	**-**
Futures				
Long position	(2)	(2)	(1)	(1)
	(2)	**(2)**	**(1)**	**(1)**

The WSIB maintains a $150 unsecured line of credit with a commercial bank for general corporate purposes.

Credit risk

Credit risk is the risk a counterparty to a financial instrument will fail to discharge an obligation and cause the WSIB to incur a financial loss.

a) Fixed income securities

The WSIB's fixed income securities consist primarily of high quality, investment grade debt instruments. An investment grade debt instrument is one that is rated BBB and above. The WSIB manages its credit risk through a due diligence process, by selecting multiple highly rated counterparties and by setting counterparty exposure limits.

The following provides information regarding the credit rating of the WSIB's fixed income securities:

	2012		2011	
AAA	1,830	36.2%	1,867	35.0%
AA	1,445	28.6%	1,725	32.3%
A	1,413	27.9%	1,458	27.3%
BBB	369	7.3%	287	5.4%
BB	1	- %	-	- %
	5,058	**100.0%**	**5,337**	**100.0%**

The following provides further information regarding the maximum credit exposure of fixed income securities:

	2012	2011
Fixed income		
Canadian bonds	4,535	5,023
United States bond	303	154
Global bonds	220	160
	5,058	**5,337**
Other		
Foreign exchange forward contracts	(48)	71
Futures	(2)	(1)
	(50)	**70**
	5,008	**5,407**

Credit risk associated with fixed income securities also includes concentration risk. Concentration risk arises from the exposure of investments from one particular issuer, a group of issuers, a geographic region, or an industry sector. These groups share similar characteristics such as type of industry, regulatory compliance, and economic and political conditions, which may impact the issuers' ability to meet their contractual commitments.

The WSIB manages concentration risk through limits on exposure to issuers, regions and industry sectors. Through these limits, not more than 5% of the fair value of the investment portfolio is invested in the securities of a single non-government issuer.

The following provides information regarding the concentration of fixed income securities.

	2012		2011	
Provincials and municipal	2,073	41.0%	2,241	42.0%
Federal government and agencies	1,452	28.7%	1,470	27.5%
Financial services	726	14.3%	731	13.7%
Utilities and telecommunications	357	7.1%	425	8.0%
Other corporate	157	3.1%	163	3.1%
Natural resources	111	2.2%	114	2.1%
Consumer products and merchandising	75	1.5%	62	1.2%
Real estate	41	0.8%	39	0.7%
Communications and publishing	32	0.6%	37	0.7%
Asset backed securities	29	0.6%	48	0.9%
Industrial products	5	0.1%	7	0.1%
	5,058	**100.0%**	**5,337**	**100.0%**

b) Securities lending program

The WSIB manages counterparty risk relating to its securities lending program by establishing a pre-approved, qualified borrower list and through exposure limits. Non-cash collateral, the fair value of which represents at least 102% of the fair value of the loaned securities, is maintained until the underlying securities have been returned to the WSIB. The collateral is comprised primarily of government bonds and major bank short-term notes The fair value of the loaned securities is monitored on a daily basis by an intermediary financial institution with additional collateral obtained or refunded as the fair value of the underlying securities fluctuates.

c) Accounts receivable from Schedule 2 employers

The WSIB administers the payment of the benefits for workers of Schedule 2 employers and recovers the cost of these benefits plus administration fees from the employers. At December 31, 2012, the WSIB held collateral in the form of letters of credit in the amount of $315 (2011 – $303) to mitigate any credit risk associated with Schedule 2 employers. These letters of credit are issued by highly rated Canadian financial institutions and can be drawn on demand.

Market risk

Market risk includes currency risk, interest rate risk and price risk.

a) Currency risk

Currency risk is the risk of loss due to adverse movements in foreign currency rates as compared to the Canadian dollar. The WSIB is exposed to a number of foreign currencies in its investment portfolio. The WSIB also uses foreign exchange contracts as an additional source of return, for economic hedging strategies to manage investment risk, to improve liquidity, or to manage exposure to asset classes or strategies. Foreign exchange contracts are agreements to exchange an amount of one currency for another at a future date and at a set price, agreed upon at the contract inception.

The WSIB has a currency hedging policy which is reviewed and approved on annual basis by the Investment Committee. The currency hedging policy provides guidelines about hedging currencies, hedging instruments, rebalancing frequency and overall currency hedging controls and process. To manage the currency risk, the WSIB monitors closely the currency exposure and has established a currency hedge rebalancing guideline. The policy specifies, among other operational matters, the rebalance frequency and the threshold of hedge ratio deviation that will trigger a rebalancing transaction.

The following provides a sensitivity analysis of the effect of a one percent increase or decrease in the Canadian dollar compared to the five foreign currencies that represent 76% (2011 – 81%) of the WSIB's foreign currency exposure in its investment portfolio:

Currency	**Total exposure**	**Effect of 1% change**
United States dollar	1,823	18
Euro	354	4
Hong Kong dollar	238	2
British Pound sterling	160	2
Swiss franc	115	1
	2,690	**27**

b) Interest rate risk

Interest rate risk is the potential for financial loss arising from changes in interest rates. The WSIB reviews interest rate risk through periodic analyses that assess the impact of different interest rate scenarios on its assets and liabilities over a period of time. Interest rate risk is mitigated over the long-term primarily through asset allocation.

The WSIB uses option adjusted modified duration to measure the sensitivity of the fair value of fixed income securities to a change in interest rates. A parallel shift in the yield curve of 1%, with all other variables held constant, would result in an increase or decrease in the fair value of fixed income securities of approximately $701 (2011 – $577). This information is based on the assumption that the securities in the WSIB's portfolio are not impaired and interest rates and equity prices move independently.

c) Price risk

Price risk is the risk the value of an equity security will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual instrument, specific to its issuer, or affecting all instruments traded in the market.

The WSIB mitigates price risk by diversifying its investment portfolio in accordance with its SIPP. The SIPP establishes the policies governing the WSIB investment portfolio, and is reviewed by the Board of Directors on no less than an annual basis and is amended as required. The SIPP requires that the WSIB's investment portfolio be diversified across certain asset classes and investment strategies.

The estimated effect on the fair value of equity securities resulting from a 10% change in market indices, holding all other factors constant, is as follows:

	Total exposure	**Effect of 10% change**
MSCI All Country World Index	8,185	819

Benefit liabilities

Benefit liabilities represent the actuarially determined present value of future payments for reported and unreported claims related to workers of Schedule 1 employers incurred on or prior to the reporting date. Benefit liabilities do not represent an exact calculation of liability, but instead represent estimates at a given point in time involving actuarial and statistical projections of the WSIB's expectations of the ultimate settlement and administration costs of claims incurred. Establishing an appropriate level of benefit liabilities is an inherently uncertain process.

The WSIB is exposed to the risk that the actual obligations for benefit payments exceed its estimate of benefit liabilities. Benefit liabilities are influenced by factors such as the discount rate used to value future claims, expected inflation, availability, utilization and cost of health care services, injury severity and duration, availability of return-to-work programs and re-employment opportunities at pre-injury employers, wage growth, new medical findings that affect the recognition of occupational diseases, legislated changes to benefit rates or modification of the recognition of workplace injuries, which are sometimes applied retroactively, and precedents established through various claims appeals processes.

The WSIB mitigates these risks by utilizing both proprietary and commercially available actuarial models, assessing historical loss development patterns in addition to augmenting its resources with the recruitment of a Chief Statistician and the formation of an Actuarial Advisory Board consisting of individuals with expertise in the area of actuarial science and specifically as it relates to worker compensation matters.

Note 18 provides further information regarding the nature of benefit liabilities.

22. Related Party Transactions

Government of Ontario and related entities

The WSIB is a trust agency of the Government of Ontario, responsible for administering the WSIA. As such, the WSIB is considered a government-related entity and is provided partial exemptions under IFRS from its disclosure of transactions with the Government of Ontario and its controlled ministries, agencies, and Crown corporations.

Pursuant to the WSIA, the WSIB is required to reimburse the Government of Ontario for all administrative costs of the OHSA. The WSIB is also required to fund the Workplace Safety and Insurance Appeals Tribunal and the offices of each of the Worker and Employer Advisor. These reimbursements and associated amounts charged to employers are determined and approved by the Minister of Labour. The WSIB is also committed to providing funding for the Institute for Work & Health and the Safe Workplace Associations, clinics, and training centres. The total funding provided under these legislated obligations and commitments for the year ended December 31, 2012 was $231 (2011 – $228).

In addition to legislated obligations and workplace health and safety expenses, which the WSIB collectively present as legislated obligations in the consolidated statements of comprehensive income (loss), the consolidated financial statements include amounts resulting from transactions conducted in the normal course of operations with various controlled ministries, agencies, and Crown corporations of the Government of Ontario.

Included in investments are marketable fixed income securities issued by the Government of Ontario and related entities valued at $960 (2011 – $975).

Key management remuneration

The remuneration of key management, which includes the Board of Directors, is included in administration and other expenses.

	2012	2011
Salaries and short-term benefits	2.7	2.7
Long-term benefit plans	0.2	0.3
	2.9	**3.0**

Post-employment benefit plans

The WSIB's two employee defined benefit pension plans and other long-term employee benefit plan are considered related parties. Note 17 provided details of transactions with these post-employment benefit plans.

23. Comparative Figures

Certain of the comparative amounts have been reclassified to conform to the presentation adopted in the current period.